

L I B R A R Y

COLLEGE
BUSINESS
ADMINISTRATION



B O S T O N
U N I V E R S I T Y

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Class No.	636.5
Book No.	C98
Acc. No.	16695
Date	12/10/28

Master's Thesis
1978
BU-CBA

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PREFACE

This volume is written from the point of view of the middleman as shipper or receiver of poultry and eggs or in the capacity of both of these functions. The author recognizes that the railroad companies, trucking companies, other transportation mediums, cold storage warehouses, and financial organizations might be considered as middlemen, but his aim is to treat those problems of the specialist in these two products.

Problems which are the most conspicuous and needing serious thought are brought to the fore. Particular emphasis has been given to the growth of the chain store and the cooperative movement. Some of the problems discussed reach out beyond the scope of these two products, but the association of other food products under the same roof as in retail stores makes it necessary to touch upon these problems which have a common interest with poultry and eggs.

An introduction which describes poultry and eggs, their production and where produced has been included that the reader might understand what the products are, also their source of origin.

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PREFACE

A chapter is devoted to the essential economic principles which must be understood if the solving of any of these problems is to be made practical.

The industry as a whole has lagged far behind other industries in its development of proper accounting methods. The author has touched upon some of the gravest errors.

Retailers faults and problems have been treated in a general way, since their existence is vital to the middlemen, also their problems are somewhat related to the wholesalers.

The gradual change in the retail outlet from small stores to chain store systems has been progressing since 1900, but of considerable importance since the World War. Most of the literature touching upon this change and its effects is to be found in the produce papers. The stabilization of the change has not been of sufficient duration to draw many conclusions.

January 1928.

Ernest Cutter.

OUTLINE OF GRADUATE THESIS

"Economic and Financial Problems of the Middleman in
the Poultry and Egg Business."

PREFACE

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CHAPTER I

INTRODUCTION

What Poultry and Eggs Are. Poultry is a general name for all birds bred for the table or kept for their eggs. The birds most commonly included under this designation are the common fowl, the pea fowl, the guinea fowl, the duck, the turkey, and the goose. ' The lay of the foregoing classes of poultry are known as eggs, but in this study the commercial eggs are those eggs laid by fowl and to a much lesser degree those eggs laid by ducks and geese.

Breeds or Pedigrees Produced. The most common egg-producing breeds in the United States are Leghorns and Minorcas, which lay white shelled eggs and are non-sitters. Rhode Island Reds, White Rocks, Barred Rocks, Brahmas, Wyandottes and Orpingtons are best for general farm purposes. These latter breeds are sitters and producers of brown shelled eggs. "

There are many other breeds that might be mentioned but are not so important commercially.

' Winston's Cumulative Loose-leaf Encyclopedia, Poultry.

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Producing Sections. The largest producing states by sections are: the Middle West; Illinois, Iowa, Indiana, Minnesota, Kansas, Missouri, Nebraska, Kentucky, Michigan, Wisconsin, Ohio, and North and South Dakota: South; Texas, Oklahoma, and Tennessee: the Middle Atlantic States; New York, Pennsylvania, and Maryland: the New England States; Maine, Massachusetts, Vermont, and New Hampshire: the Pacific Coast States; California, Oregon, and Washington: Rocky Mountain States; Utah, Idaho, and Montana. '

The Middle West produces the bulk of all poultry and eggs in the United States. The Middle Atlantic States and New England States are important factors in producing native products which find their market within a short radius. The Pacific Coast States and Rocky Mountain States are rapidly growing and are unique in that their production is more scientific, whereas the other sections tend toward general farm production. The South has a very promising future in production with the possibilities of shortening our storage season in these products.

Incidental to General Farming. The greater part of the production of eggs and poultry has been and is today a side line or an incidental part of the

' Yearbook of Agriculture 1926, P. 1157.

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farmer's objective. Hence, these products were neglected.

Just why the farmer should have given so little thought to the possibilities of producing poultry and eggs advantageously is a question. Some of the possible solution may be lack of demand in poultry due to high prices to consumer, large margin between producer and consumer resulting in small returns to the farmer, poultry looked upon as a luxury, and consumed generally by the more prosperous or sick. If there were no great incentive to raise poultry, the production of eggs would suffer since one is dependent on the other.

The World War brought about a great change in the paying prices to the farmer. These prices were maintained until about 1920, since then a small decline has taken place but sufficiently high to encourage profitable production. Keener competition among shippers has netted higher returns to the farmer than formerly, considering the decrease in value of the dollar. The result has been greater interest in poultry and egg farming by the general farmer. As a matter of fact the possibilities were so attractive as to develop specialists in poultry and egg farming.

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Specialty Farming. The Pacific Coast States have taken the initiative in this field on a large scale production basis. But instead of being satisfied with the returns as made through the usual marketing methods in which many small farmers were content, they saw possibilities of large savings in performing their own assembling, processing, grading, packaging and marketing to the retail outlets.

The successful operation of the California Fruit Growers Association and other Pacific Coast States Cooperatives has suggested this form of organization for the poultry and egg producer so that there now exists the Pacific Egg Producers Association which is a consolidation of three other cooperatives. This organization is popularly known as P.E.P. and it certainly has become a large factor in the industry.

New England has been slow to appreciate the possibilities in this form of specialty farming. But she is handicapped in not having a sufficient grain supply at hand so as to make the production as profitable as in those sections where grain is at hand. There is a decided advantage in New England in the prices obtained for the egg production over any other section, but, not for the dressed bird. Yet the price advantage has possibilities worth looking into and some day may prove equally as

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profitable for New England poultry specialists.

The tendency in New England has been to combine poultry farming with one or more other farm products as in apple and peach production, strawberry or asparagus raisers, etc. The idea is more of an insurance against lean years and has good foundation since it is conducive to a more stable income.

"More farmers are interested in poultry, there is a tendency toward greater specialization in this phase of the farm business and therefore toward larger flocks. Changes which have taken place in production methods have been largely responsible for the increased size of the producing units by reducing the labor in rearing young stock and in caring for the laying flocks. The development of mammoth incubators, by means of which larger flocks of chicks of the same age could be produced; the use of stove brooders, which made possible the brooding of the chicks in larger units; and newer information regarding feeding and management have been the principal factors working in this direction."

Educational Opportunities. It is the duty of the middleman, cooperative association, or that body taking the farmer's products, to aid in educating the farmer. This aid may be by direct methods, such as installation of private laboratories for study and passing out educational information; or indirect by informing the farmers of sources

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of getting such information that is of value to him, also by lending aid to these indirect sources that they may be able to get to the farmer. The government, local, state or federal and colleges or universities are all carrying on educative programs.

The farmer must be encouraged to produce those birds which are best adapted to flesh products or just egg production or to a combination of both, whichever is deemed most advisable. He should be discouraged in the raising of unprofitable stock.

Particular strains have advantages over mongrel stock, such facts must be brought home to the farmer.

Better housing conditions, clearer understanding of proper feeds, when to breed and what to breed, introduction of new vitality into the flocks, size of flocks, and other related problems.

The possibilities of greater savings may be obtained through economy in buying of stock, feeds and other supplies. The opportunities of securing greater returns is apparent through more efficient marketing methods and an understanding of the marketing machinery. A thorough knowledge of where to market the various products and when to market them is essential. The recognition of these ideals is a requisite to success.

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The poultry farmer must grasp the need for hygiene in his flocks, that disease may be kept at a minimum. Also, he should be familiar with the causes of these diseases, what they are, and how to cure them.

This problem of disease is very serious as shown in the disastrous results of 1924, when the public became fully informed of its presence in poultry and practically boycotted it for a time. The retailer, middleman and farmer, each in turn has suffered loss from this propaganda which could not have been honestly suppressed, since the consumer's health might have been at stake.

There are many detailed problems which could be brought out along these lines, but the purpose in mind is to show the problem of enlightenment which is necessary to overcome the inefficiency and haphazardness of the industry.

Education is the need to put the poultry and egg industry on a more scientific basis and thereby promote the growth of the producer.

Poultry Diseases. The poultry diseases are many and levy their tolls through epidemics as do those epidemics which affect the human race, but on a much greater scale than that of the human race.

The year 1924 was a year of poultry epidemics in the heart of production in the Middle West. As stated in the previous section, the fact was soon broadcasted to the public through newspapers, trade papers, and governmental

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agencies. Some states went so far as to place embargoes on live poultry coming out of the affected area. New York was the first to place such an embargo, since it is the largest consuming center of both live and dressed poultry in the United States. One can readily picture the result.

There are many diseases such as the roup, white diarrhoea, pneumonia, tuberculosis, and common colds which can be diagnosed and treated by cure or killing of the bird, but there are many diseases not understood. Such studies have necessitated government aid or agricultural college studies and should be encouraged.

Seasonal Production. There is great need for the spreading of production by sections. This would bring into play the South and Southwest since these sections do produce and can produce poultry and eggs but not on such a scale as to equalize production in the United States throughout the entire year. To hope for this complete equilibrium would be folly, but to bring about an approximation to the desired state is highly possible and desirable.

The egg shortage prevails from about September to January. In the years prior to 1917, the season was even longer. The result is high prices for fresh stock during the greater part of these months when cold storage eggs are used as a substitute. Would it not be better for the industry and the consumer to have a more uniform production?

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If so, the South and Southwest could be encouraged to fill the gap. What is true of eggs is true of poultry, except the season is different.

The bringing in of this new production could not be done arbitrarily by such methods as forcing unprofitable producing sections from stopping production and commanding the South and Southwest to produce. It can be brought about by education of the Southern farmer and encouraged by the government.

Some would prophesy an overproduction. Of course, it is not sound to say overproduction from an economic point of view, since it is not so, but it can be so if it is measured by the profitableness of the entire crop to the producer. Even so, time will iron out this problem when the most efficient section will raise the poultry and eggs.

A study of the progress made by the growers of green stuff in the South in shipping to Northern markets might be educational for those who would attempt to do the same for the poultry and egg industry.

Preferred Sections for Production. Some sections are much more adapted to producing certain breeds of poultry and eggs than others. The better sections should

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be studied and encouraged to produce while the poorer sections should be educated to the better methods of production, which methods if not successful when applied should be discouraged from production in favor of some more favorable product which would be suited to that section.

The production of turkeys furnishes a very good example of this need. The Northern country; New York, Vermont, Minnesota, the Dakotas, Montana, Idaho, and the Canadian Provinces bordering these states produce the fancy turkey stock in North America. These turkeys are delicious in flavor, have better color, clearer white meat, fulfill fancy stock requirements and command a premium over turkeys from other sections. Those turkeys produced in Kentucky, Illinois, Tennessee, Oklahoma, Texas, Missouri, and other South Central states are well meated, not so good generally in appearance, lack the delicate flavor of Northern turkeys, but they are all marketable. These turkeys sell at a discount from Northern prices.

The consumer is not always aware of these facts as just mentioned, in fact the consumer knows nothing about the points of origin and are inclined to treat all turkeys alike and buy at about the same price level. It is the wholesaler and some retailers who are the judges and who take

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advantage of the differences in price.

This method of pooling the bulk of turkeys as being from one section generally noted as Northern sections is detrimental to the superior bird produced in Northern sections, since the Northern birds are not as a rule given their credit by consumers who are in ignorance of the facts. Take the other side, those producers in the Southern sections could possibly produce more turkeys at a profit if the public were not forced to pay Northern prices for Southern turkeys.

More honest marketing methods should be used by both middleman and retailer that both sections would get their due credit - the Northern sections for quality, the Southern sections for good turkeys at lower prices.

What is true of turkeys is true to a greater or lesser degree in other poultry products and eggs.

A study of these conditions by the government might show each section how to take advantage of their production and to utilize it to the best advantage. Also the public might be more honestly enlightened that they might get what they pay for. Such enlightenment is bound to work out to the advantage of the producer and consumer, even though the unscrupulous middleman or retailer is the loser.

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The wide awake and honest middleman wants more quality products, the consumer demand is present and such an attitude with its possibilities outlined could help satisfy and further this demand.

The government should also encourage a study by producers of climatic advantages, feeding advantages and other possibilities, since all these have their respective bearing on the bird produced for market.

CHAPTER II

ESSENTIAL ECONOMIC PRINCIPLES

Poultry and egg production was and is to some extent today, carried on regardless of its cost. This was due in part to the industry having been carried on as a supplement to general farming. Prior to the merging of agriculture into the modern commercialized agriculture, such haphazard production could have been continued. The advent of the twentieth century has been the turning point in the production of these two commodities instead of being confined to a narrow market, they have reduced costs and have stimulated wide markets therefor.

Since the World War, the possibilities of making the industry one for specialists has loomed large, and so today there is a tendency to calculate costs and produce for a profit. When the profit disappears or diminishes, production is affected and declines. The reverse is noticeable when the margin of profit is present or on the increase. The price of those grains used for feeding is (a major and influential factor of) production. If the price level of poultry products is low and grain is high, the farmer is very much inclined to sell his grain and

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neglect his poultry production. It is very apparent that farmers are not producing promiscuously and are trying to conduct farming on a business like basis.

Production as Conceived by the Economist. To create the need for the middleman in the dressed poultry and egg business, we must first have production. A glance toward the economic meaning of the word production shows that the thing produced must have the power or ability to satisfy a human desire; if it does, it is a utility. Those essential acts of man which aid in the creation of utilities constitute production.

Utilities may be classified as (1) elementary utility, (2) place utility, (3) form utility, (4) time utility, and (5) possession utility.

It is very essential that a correct understanding of the use of production as outlined here be conceived. We have long since passed beyond the stage of self-sufficing agriculture so it is necessary to eradicate the idea of production as being one utility created by the farmer. It would not be correct in our complex system of living, to say that a farmer satisfies a want by producing poultry, when dressed poultry is wanted one hundred miles or more away.

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Before this want is satisfied, the following utilities must be fulfilled: the elementary utility created by the farmer, the place utility fulfilled by transportation system, form utility completed by the packer, time utility provided by storages, and possession utility ultimately furnished by those marketing the products. One utility is as essential as the other.

To quote Macklin, "The real meaning of the term production is the creation of all of these utilities. In other words, production consists of the rendering of all those essential services on the part of farmers and of middlemen which actually bring into use the goods and services required to satisfy the wants of consumers."

If a clear understanding of the economic meaning of production is comprehended, it is easy to foresee how inevitable economic problems of one group creating a kind of utility cannot help but affect indirectly if not directly those of another group. An illustration is that poultry diseases among the flocks of the farmers are bound to affect the consuming public. The public will refrain from consuming poultry until such time as the disease dwindles and is forgotten. The reduction of consumption reacts on all the kinds of utilities.

¹ Macklin, Theodore, Efficient Marketing for Agriculture, Chapter II, P. 26, 27.

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Marketing. To quote Macklin: "Thus marketing as related to farmers may be defined as the rendering of those essential services which enable the consumer to utilize the products of farms. Abstractly marketing refers to the creating of place, form, time, and possession utilities. Concretely it means the rendering of no less than eight types of necessary services. These definite marketing services are: (1) Assembling; (2) Grading and Standardizing; (3) Packaging; (4) Processing; (5) Transportation; (6) Storing; (7) Financing; (8) Assumption of Risk or Distribution."

Marketing Methods and the Public's Interest. The public is interested in all the fundamentals of production and marketing insofar as their wants shall be satisfied as efficiently and economically as is possible. When the public discovers discrepancies in the consuming price levels due to inefficient production and marketing, it reacts and new problems arise to overcome these faults.

The general marketing methods are; (1) the regular marketing method, (2) the integrated marketing method, and (3) the direct marketing method.

Marketing Agencies. The public is interested

' Macklin, Theodore, Efficient Marketing for Agriculture, Chapter II, P. 28, 29.

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in marketing agencies to the point of demanding that agency which is most efficient. There are three to choose from, namely;- (1) the private marketing agency, (2) the cooperative marketing agency, and (3) the governmental marketing agency.

This country has had and has a thorough experience under private marketing agencies. The cooperative marketing agency has made tremendous strides forward in late years, particularly in the marketing of fruits. The success of this latter agency in the marketing of poultry and eggs bids fair to become a greater factor than at present. The government in this country has not deemed it necessary to interfere as an agency as yet. The experience from this source is nil. Nevertheless our government is active and particularly so in aiding the cooperative agency.

CHAPTER III

PROBLEMS OF ASSEMBLY

Problems. There are many problems perplexing to the shipper in his assembling which necessitates a great deal of analysis and study. The most important of which are; destructive competition among themselves, competition from the favored cooperative organization, competition from live poultry shippers, competition from egg hatcheries, lack of cooperation from farmers, problem of lowering assembly costs, and the utilization of all the product purchased.

Competition Among Shippers. The competition among shippers has been destructive and very costly to the legitimate shipper.

Specializing in the shipping of poultry and eggs has developed within the past twenty-five years. The early pioneers have found the business very profitable, many of them have developed into strong economic and financial organizations who are able to cope with any competitor. The prosperity of these early pioneers has led others to venture with the hope of waxing rich. This new group, consisted in great numbers of men who were daring rather than practical. Most of these new venturers lacked sufficient capital to conduct this business successfully.

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It is essential that a person or persons who may enter this business have sufficient working capital to conduct a plant with at least a carload capacity output. The facts are that such capital is too often lacking; yet these men have courage, if it may be so called, to go out and try to compete with those organized and not handicapped for equipment or finances. This class of shippers cause great disturbances while they start and ramble through to failure. They pay excessive prices to distract those shippers established in that territory. They create discontent among the farmers and shippers. They manouver to draw in some backer, especially one from the East or centers of consumption, and eventually take him in their toll.

There is no doubt too much of this reckless, careless and illegitimate competition. The shippers should organize to keep within the law and yet discourage such upstarts.

The "Large Packer" competition (Swift & Co., Armour & Co., Wilson & Co., Morris & Co., and Cudahy Packing Co. When mentioning "Large Packer" in the following, it will mean this group.) is severe at times and creates hardships to the independents. These packers have formed separate departments in

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their organizations known as the produce department, which department handles butter, cheese, eggs and poultry. Their supposed advantage is in economy of overhead, since they must have their plants and outlets for their meat products; why not add these other products with no relative increase in expense except those which are direct expenses? This argument is more theoretical than practical, and perhaps a handy one to be used in some of their competitive methods. The "Large Packers" have many shipping plants which are scattered throughout the producing sections. Once they have selected a territory, they must see it developed successfully and in order to start it they will raise paying prices to the farmers to prohibitive levels. Their diversified business and scattered plants in poultry and eggs can very easily take care of such losses as sustained by this one plant until such time as they have that territory in hand. Such practices are not in harmony with our anti-trust laws, but through diplomatic tactics they evade any charges of violations of the anti-trust law.

It is very evident that this competitive problem alone would warrant the existence of only those shippers who are exceptionally capable, have efficient plants and are financially responsible.

Cooperative Organizations have become a Competitive Factor since 1920. The rapid rise and progress of co-

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operative organizations in other lines, particularly among fruit growers in California, has given great impetus to the formation of similar organizations in the poultry and egg business.

Those cooperatives now in existence in this industry have not proven their worth as yet, but since there has been no severe reverses to dispell or undermine their foundation they are growing. They also are making the competition much more keener than heretofore, due in part to the very evident reaction by independent shippers to boost paying prices to keep the farmer happy and cause disconcert among the cooperatives. More will be said in a later chapter which is devoted to a discussion on the cooperative.

Live Shippers versus Dressed Shippers. Another competitive factor not always severe but extremely so at times, is the shipper of live poultry. There are times when the competition becomes so severe for the shippers who ship only dressed poultry, as to cause shutdowns in some plants and a very reduced output in other plants.

The Jewish Holidays have a direct bearing on the smooth or uneven trend of the industry. Just prior to the observance of most of these holidays, poultry products are in great demand. This demand is for live stock only, which is handled by live poultry shippers.

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Many shippers specialize in dressed shipments only. This is also true of live shippers. Therefore, if the latter group desire the bulk of receipts of all poultry to be marketed by farmers, they must bid up the paying prices to abnormal figures. This is generally the situation.

The dressed poultry shipper is not in a position to meet this competition immediately since the dressed market is distinctly a separate outlet and the prices quoted there do not respond to these advances as rapidly as necessary, the normal demand of dressed poultry being unchanged and very likely to slacken on an increase in the price level. With a drastic cut in dressed receipts, the market will again catch up with the live market.

The affect on the dressed shipper is quite pronounced at times since he cannot fill his batteries to capacity he must prorate overhead over a much lighter output until such time as the competition from live shippers slackens and the dressed market advances.

Some dressed poultry shippers have tried to overcome this temporary tie up or loss by shipping both live and dressed poultry, directing their attention to the most profitable outlet according to market conditions. This method has not proven so successful, most receivers of dressed poultry demanding it the year round and will not contract with those shippers who will not conform to one method of shipping. These receivers have good reason for such demands since their most profitable time is

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when dressed receipts shorten up on account of live shipments. If they lost this profit, their business would be conducted at a loss or for nothing.

Competitive Problems Peculiar to the Assembly of Eggs.

Competition for eggs has similar features as those entering into the gathering of poultry since they are generally collected simultaneously. But there is one problem peculiar to eggs only in the competition from hatcheries for incubation purposes. This competition is not so severe where those who do the incubating run their plant in conjunction with their poultry and egg plants. It is in those cases where the hatcheries specialize in incubating only, since they have a tendency to pay premiums for the fancy stock and leave the less desirable eggs for the shipper. The real bad feature here is where the first hatching is unsuccessful or the hatching is very late, this will draw fancy eggs which should be stored for later use for consumptive purposes. It is the April and May eggs which are in favor for storage purposes, so it will be readily appreciated how close these two factors come together and are very apt to lap.

Lack of Cooperation from the Farmer. This is not unexpected since the raising of these products is only a small part of his duty and it is very difficult to

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convince him of the need of cooperation when it is not vital to him. The reverse is true in the Pacific Coast section where there are specialists in poultry farming or raising.

The consumer is demanding a better grade of poultry and eggs. This demand will be curtailed at certain price levels which seems prohibitive to the consumer. In order that the shipper may supply this demand, he must either get more fancy products and reduce the undergrades or raise the price level that only those who will pay the higher prices will get the fancy selected stock. It is not the wish of the shipper to refuse business. Therefore, his solution must be in obtaining more high quality products that may be marketed at a fair price level. The Pacific Egg Producers have felt this demand for better products and have been in a position to fill a part of it since they have a much better control over the poultry and egg production. Their rapid growth can be attributed to the manner in which they have conducted the producing and packing of their products.

The shippers in the Middle West in particular have been trying to fill their part of the demand for better products by securing the aid of federal, state, and local governments, also the aid of agricultural colleges and private enterprises conducting educational programs. Such educational data coming from these sources will be more

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readily lauded and accepted than directly from shippers because of a general feeling of suspicion toward shippers.

Many shippers have started hatcheries that they may furnish the farmers with better stock and increase the vitality of his flock.

There is an evident tendency to throw down these barriers of cooperation among farmers which is bound to be beneficial to all.

Lowering of Assembly Costs. Competition has been so severe that the shipper has been forced to cut down expenses wherever possible, which is good for efficiency. Assembly is expensive, yet the attitude of consumers, farmers and governments is such as to try and ignore the costs necessary. The saying of "What goes on in the dark", is very typical of the ignorance of what does go on in the dark.

There is room for more scientific assembly and a consequent diminishing of the costs attributed to assembly. Earnest studies on the part of shippers are necessary. The following factors must be recognized: the elimination of the less strategic buying stations; to select farming sections which are producing better products with surpluses of these products to warrant buying stations; to seek out that tendency where sane competition prevails to cover the right amount of

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territory from the central station; to avoid unnatural proportion of a farmers output; and to minimize the capital expenditures for unnecessary equipment.

The Complete Utilization of All Products Purchased is Highly Essential. There is a great economic waste in all food lines when food products go to waste. It is only since the Large Packers realized this that they found outlets in which they could utilize every part of a steer or hog. The greatest loss in this direction in poultry and eggs is found in casualties while on feed and purchase of rotten eggs or incubator eggs. It is impossible to sell the dead birds or the rotten eggs for consumptive purposes, since it is illegal, yet they are used for fertilizer and chemical purposes. The real objective should be to cut down battery losses due to casualties and discourage the unscrupulous farmers, stores or hatcheries from marketing rotten or incubator eggs. The by-products as feathers and manure are sold but not always to advantage.

Conclusion. It would pay the shippers to educate themselves that they might analyze such subject matter as the foregoing suggestions, but in addition scrutinize by analysis his expense necessary and unnecessary for assembling that he may assemble his products as economically as his competitor and know what is actually the facts rather than guess or estimate. Business is being

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conducted more scientifically in all lines today; it would be to the shipper's advantage to work toward this end for his own benefit, as well as to discourage the suspicions of those who would like to know "What goes on in the dark", that this suspicious group might be supplied with facts.

Their products. The question arising in his mind is obvious; the shipper is now out to see what can be done.

Much has been done in grading, standardization, packaging and processing, yet, there is a tremendous field for bettering these steps, particularly in the first three.

There is at present a strong sentiment in favor of establishing of standards and grades both for the millman and retailer that the products may reach the consumer under the particular standard or specifications set forth. This movement has been sponsored by Roy C. Potts, specialist in charge of the Division of Dairy and Poultry Products of the Bureau of Agricultural Economics. He has set forth a plan at the 11th annual convention of the National Poultry and Egg Association at Louisville, Kentucky on October 12, 1927. The suggestions or plan of Mr. Potts read as follows:

CHAPTER IV

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Movement Toward Improvement. The shippers have come to realize that the consumer is willing to pay a little more for products in other food lines where they have improved the package and appearance of their products. The question arising in his mind is obvious; the shipper is now out to see what can be done.

Much has been done in grading, standardization, packaging and processing, yet, there is a tremendous field for bettering these steps, particularly in the first three.

There is at present a strong sentiment in favor of establishing of standards and grades both for the middleman and retailer that the products may reach the consumer under the particular standard or specifications set forth. This movement has been sponsored by Roy C. Potts, specialist in charge of the Division of Dairy and Poultry Products of the Bureau of Agricultural Economics. He has set forth a plan at the 21st annual convention of the National Poultry and Egg Association at Louisville, Kentucky on October 12, 1927. The suggestions or plan of Mr. Potts read as follows: '

' Produce News, Saturday October 15, 1927. Page 1 and 6.

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1. The use of national grades as a basis for the purchase of eggs and poultry from the producer and the payment of price with a proper price differential between the grades.
2. The marketing of eggs and poultry through the various wholesale channels of trade on the basis of established national grades.
3. The ultimate sale of eggs and poultry to retailers and by retailers to consumers on the basis of established retail grades."

The plan as set forth by Mr. Potts showed the need of standardization of grades and pack even though it met with tremendous opposition among the wholesale trade. There was nothing accomplished for the furtherance of the plan at this meeting. The solution as suggested by the trade in general was to let competition set the standards since it has already brought about a vast improvement in poultry and egg grading, processing, and packaging.

Grading and Standardization. The assembled products now introduced have met with great success and increased consumption of poultry and eggs. The grave fault lies in the fact that such standards are entirely ignored so far as is possible by a great many shippers. There are many shippers who attempt to reach or attain such standards but fall short. The result has been that

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a few dependable shippers have established brands and trade marks which they have standardized for quality and package. This latter group of shippers have nevertheless profited by their foresight and command a demand for their products not enjoyed by others, also, at the same time they have been able to receive a premium in price that has paid them many times over for their extra effort.

There seems to be little doubt that as time elapses, competition will inevitably bring a closer relationship among shippers on grading and standardization, which will be set forth in exchanges or associations. Once these ideals have been attained by the majority of the shippers, what is there to prevent a certain few from trying to break down these standards by representing inferior grades, as top grades, as is now done under the cold storage laws of the various states which are not uniform? There is need for enforcement through strict adherence to the regulations as stipulated by exchanges or federal government regulation. It is a matter of securing harmony among all exchanges in such cases that the regulations be uniform in all states or letting the federal government step in.

There are shippers of extra fancy marks of poultry who grade poultry into as many as seventy-four grades at a packing. On the other hand, many shippers will ship the same quantity out of similar territory under about fourteen grades. Such a discrepancy may mean nothing to the average

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person, but it does indicate that something is wrong. It means that the shippers must get together to narrow down this extreme of grading methods to a closer point of uniformity, if he is to create a greater demand for his products.

What has been said about poultry may be said to be equally true of egg grading, except there are fewer grades. The exchanges and federal government have laid down certain grades which may be followed at the shipper's option.

Packaging. There can be little said for lack of proper packaging of poultry and eggs. The gravest error is on the part of a minority group of shippers who seem to feel that false representation of packages is to their selfish benefit. This theory has proven unprofitable over a period of time, but there are always a sufficient number of buyers to enable this small group to exist.

The majority of all products marketed are put out under brands or marks which the shippers aim to maintain on a uniform basis. It is very difficult for new brands or unreliable brands to make inroads into the market on top market quotations as secured by other marks. Nevertheless, buyers use quotations made to them to buy the better marks by. Buying of this character tends to discourage the receivers who handle the better marks since

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they cannot afford to meet competition which offers inferior quality. Such buying methods should be discouraged, its eventual affects would not be beneficial to honest packs.

The new Mapes cup flats and a few other patented flats have greatly reduced the breakage problem in eggs.

The cartoning of eggs for retail use has presented a problem which can be solved if cost is ignored, but since the cost factor is the more serious, it still offers an opportunity for solving. The demand is for a fool-proof carton which can be sold for about one cent a piece.

Processing of Poultry. The past season has wrought a great change in the processing of poultry products; packers have improved their fancy stock and produced a larger percentage of fancy stock. This process, known as the wet pack or slack scald, has saved thousands of dollars and also has turned losing plants into profitable ones.

There have been many opinions and views expressed as to the cause of poultry standards dropping in recent seasons. It is very probable that the major cause has been lack of stamina or vitality in the flocks. The feeding process had to be shortened which caused lack of feed quality in the dressed birds, also the sudden

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appearance of pin feathers which could not readily be removed by the old method of dry picking.

The first problem was to unearth the cause of this lack of vitality. Here is where the educational opportunity showed itself. It is believed that the rapid growth of incubation has resulted in much poor incubation with its resultant poor chicks. Also the flocks were not revitalized with stock from outside as often as needed and the strains within were weakened. Those interested set out to check the diseases apparent have discovered the base of the facts just noted. The results of their efforts have been gratifying and shows what concerted efforts can do.

The second problem of pin feathers has been partially remedied with the solution of the first, but since there have been steps under way to remedy this latter trouble which had already shown results, the movement has not been abandoned. The new process is far superior to the old method, but, it too has brought difficulties which can be made nil if due care is given, or serious loss if careless. The wise shipper will do well to analyze the defects in the new process, that they may be corrected and save him serious loss.

The old methods of scalding and dry picking have evidently given way to a compromise of both which bids well to replace the old for all time. There is a saving in its use which has gone to the shippers, but once it is in national usage it cannot help but be passed on in

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in part to the consumer in the form of better products at the same or lower prices.

The advent of the chain store into the meat and poultry business has created a new demand. Chain stores have experienced success in their field by converting all products possible into a form that they may be sold with the least possible waste through shrink or deterioration. The idea has been conceived to apply this rule to poultry by discarding the entrails, heads and legs of the bird at the packing plant and wrap the chilled dressed bird in a sanitary wax paper, that it may be well preserved. The product would then reach the consumer untouched after packing, which is always desirable. The idea is novel and has met with favorable and unfavorable criticism. This is to be expected in any change which is so radical a deviation from the old method.

There are economic considerations which must be given first thought if serious damage to the industry is to be avoided. Consumption is bound to drop due to high price levels, also to deteriorated products. Both of these factors are present in introducing the new idea.

The cost of dressing the poultry at the plants must be added to the price. This cost is made up of shrink from entrails, heads and legs, extra labor, and packaging. Not considering the cost of packaging, it is very evident that the concentrated efforts of experts should create

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a saving in labor over that of the individual butcher, and a saving in the utilization of entrails, etc., by conversion at the plant into fertilizers, feeds and other uses. But the item of labor in retailing is considered a part of overhead and not directly applicable to the poultry and it is questionable as to whether it is correct to say that the labor at the plant would be a saving. The removing of the entrails, heads and legs increases the net price about twenty-five percent, but will not necessarily increase the net cost of the bird. Yet, the consumer must be educated to this change in price with no material change in the cost per bird. It is this latter problem which is very apt to retard consumption disastrously for a time at least, until they become accustomed to a higher price level and a smaller weight in the bird purchased. A gradual change by letting the chain store feel out its possibilities would be more desirable and cause less immediate havoc to the industry, then, if it does not seem favorable, return to the older method.

The consideration of quality is another vital factor. Many have advanced the theory that hogs, cattle, lambs, veal and etc., come dressed with entrails out, why not poultry? Poultry experts claim it is not practical since the inside meat taints too rapidly unless chilled and severe losses would result in deteriorated products; even though chilled, it must be kept so chilled until in

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the hands of the consumer. Will the consumer accept chilled products as fresh chilled or look upon them as cold storage and refrain from them in suspicion? The chain stores will say that they turn the product over so rapidly that this will overcome the loss from deterioration. The whole problem is debatable, yet, offering a new field of venture with possibilities of success.

Processing of Eggs. There is little processing necessary for eggs that reach the consumer in the shell. The sterilizing or guaranizing or other processes intended for preservative features have made progress in their attempt to provide better eggs for the consumer in the months of light production. That is, the eggs are an improvement over the ordinary cold storage eggs not processed, but they do not accomplish what they purport to do, namely- to take the place of fresh eggs. There is need of more educating the consumer on the value of these processed eggs and a greater need of more uniformity of the better processes, that once having acquainted the consumer with the value, he will not be supplied with inferior eggs.

The proper and only place to process the eggs and the selection of only fancy fresh eggs for processing is highly essential. The egg should be new and processed as near to the point of assembly as possible. The

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processing does not improve the quality, it merely attempts to preserve it. The distaste for storage eggs may be greatly lessened if the process can be made uniform and the public made to appreciate its real value. The bulk of eggs consumed indirectly through bakers, mayonnaise manufacturers, caterers, and other miscellaneous consumers, are processed eggs. The eggs so marketed are egg yolks, egg whites or albumen, mixed eggs (white and yolks), dried yolk, dried whites or albumen, and dried mixed eggs. Competition has forced this industry to pack at the nearest point of production as may be possible. The large breakers have their plants scattered throughout the Middle West and Pacific Coast states, some have large plants in China.

The consumption of egg products as has just been noted has seen tremendous growth. So great has the demand for undergrade eggs been that a very close price level is maintained during the breaking season with that price level of top grades. The breaking season runs in conjunction with the storing season of shell eggs. This is beneficial to the shipper and consumer of fancy eggs. Previously a wide range was common and the better grade of eggs had to bear the burden of disparity in price.

The keeping quality of these eggs when stored is good and of much longer duration, thereby reducing the

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vicissitudes experienced in the storing of shell eggs. It is this advantage, nevertheless, which may lead to undue speculation at times.

The breakers and driers must endeavor to keep their margins of profits within reason if not forced to by competition, for many of their outlets are large and could very easily establish their own breaking plants if forced to do it.

Railroads are the most important unit in the transportation of poultry and eggs to the consuming centers, but it would be far wiser to say that the motor truck, water transportation, and the air mail carrier are becoming more and more important units.

Railroad Problem. It is only natural to treat the most important unit of transportation first. The reader must bear in mind that the problem to be touched on are those of the railroads in the poultry and egg business, rather than those of the transportation units.

Freight and express rates have always been a bone of contention with the industry. Competition has

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TRANSPORTATION PROBLEMS

Many Problems Eradicated. The rehabilitation of practically all railroads since the World War has been so efficiently carried out that many old time problems have been eliminated. This is especially true where there has been a lack of cars, delays in shipments, improper refrigeration and inaccuracies or lack of information on cars in transit.

Railroads are the most important unit in the transportation of poultry and eggs to the consuming centers, but it would be far fetched to say that the motor truck, water transportation, and the old fashioned caravan or horse and wagon have no important part.

Railroad Problems. It is only natural to treat the more important unit of transportation first. The reader must bear in mind that the problems to be touched on are those of the middlemen in the poultry and egg business, rather than those of the transportation units.

Freight and express rates have always been a bone of contention with the industry. Competition has

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become so keen that it is a real argument in sighting advantages in freight or express rates from one territory over another. The freight differentials often times mean the selling of a plant's output at a profit or a loss.

The rates are computed according to the haul, its complication, and the value of the product. They cannot be said to be unreasonable with these factors in mind and also considering the efficient service rendered in the past few years. Yet there are those who will pick the tariffs to pieces to secure advantages.

The more important economic problem lies in the fact that this territory now shipping the bulk of the products to the consuming centers are gradually populating to the extent that they have less surpluses for shipping the eastern markets. The ever increasing demand and this gradual reduction of surpluses in the present territory is constantly calling for the bringing in of new territory further west. It is possible that the time when this change will be felt is too far ahead to bring consideration here. Yet, it is evidence and mention is worthwhile. The rates further west are naturally higher, but those now shipping from the far western territories must absorb this additional rate to compete with those nearer the consuming centers. The time will come, however, when the bulk of these products are very apt to come from this new territory

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and at this point the rates can be passed onto the consumer in the form of higher prices, excepting production economies or changes in the value of the dollar which might overcome a higher price level.

Loss and damage have been the cause of considerable losses to both railroad and the middleman in the past. The railroad claim departments could tell a woeful tale of the tremendous loss to shippers, receivers and railroads. The carelessness, thievery, and inefficiency evident prior to 1922 has been rapidly declining. It is the middleman who must eventually pay for the claims in higher freight rates, whether these can be passed on to the consumer is problematical. The economic loss is there and should be eradicated insofar as is physically possible.

The ambitious claim departments of railroads are striving to educate those shippers who are prone to good loading methods. Causes of losses and damage are analyzed to see if prevention measures can't be founded and a corrective attitude developed.

The Interstate Commerce Commission regulation, which prohibits the settlement of claims on business seeking reasons alone are gratifying. This leads to the payment of right and honest claims and an investigation to satisfy that the claims presented are right and honest. This regulation is for the good of all concerned and should receive the support of all honest middlemen and

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railroads.

The less than carload shipments cause considerable losses which need attention. It might prove beneficial if shippers in this latter class would be compelled to cooperate with railroads in these small shipments by proper packaging, and the railroad in turn, load cars better.

Loss Due to Lack of Proper Terminals. Sidings, spur tracks, and terminals are a necessity. Most shippers of any size have one of these facilities for their loading, thus saving cartage. Those shippers who have neglected this facility are at a decided disadvantage in meeting competition effectively. It is the receivers who have been negligent in providing these facilities for unloading their receipts. The receivers in most of the older cities have been and to a large extent are handicapped by having to pay cartage charges for hauling from the freight terminals. This situation has, and is causing considerable loss in service and direct expense, which can only be remedied by expensive removal programs or conversions of realty that such facilities may be added to their stores. The natural growth in some cities has demanded new locations for stores, and in many cases they have located so as to secure the railroad facilities. The problem has been, and is so serious that the federal government at Washington made a special investigation and submitted a report thereon as to actual conditions. '

' Food Investigation, Report of The Federal Trade Commission on the Wholesale Marketing of Food, June 30, 1919. Section 20, Terminals.

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Boston and Chicago are two outstanding examples of the condition prevailing. The latter city especially has twenty-five railroads with terminals, each line bringing in products with no central point of concentration so that John Jones who might be fortunate enough to have a spur track can get the car onto his track and must need send a caravan across the city to the railroad terminal to unload the car. Boston has two poultry houses that are fortunate enough to have facilities to unload these cars with the aid of hand trucks which are pushed from the cars to the refrigerators, a distance of two hundred feet or more. These facilities are not always open since a slight increase in shipments necessitates carting of some cars.

The added cost for cartage from freight terminals to the store is about twenty dollars per car of 20,000 pounds net weight, or in the case of eggs per 400 cases. If this is prorated over the entire shipment, it means a very small fraction of a cent per pound or per dozen, but in wholesaling this is quite a factor. When a car of poultry will average only about \$160 to \$170 gross and a car of eggs \$90 to \$100 gross, one can readily see the percentage eaten up for cartage. With chain store competition forcing out the smaller units, it is necessary to cater to the former in a wholesale way and in order to get their business, it is necessary to sell on a mere brokerage of one-quarter to a half-cent per

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pound or dozen, which means \$50. to \$100. on poultry and \$30. to \$60. on eggs gross profit. Deduct \$20. and there is little left on each car.

The tieups in traffic where trucks or caravans come from the terminals to stores is ridiculous at times and causes serious inconveniences in giving service to the trade. If these facilities as needed were had, such tieups would not interfere with the bringing in of the products on time.

Proper terminals which will enable the concentration of all roads thereon and proper spur tracks and sidings for receivers are essential and must be had. The advent of chain store power with their sidings, gives them an advantage in buying power over wholesalers. This factor alone needs serious consideration.

The fruit and vegetable trade of Boston have just recently opened up their second terminal for receiving their products direct from cars. The railroads have been the factor in securing this much needed condition. One of the Boston railroads have been making inquiries as to the possibilities of bringing the poultry and egg trade these same sort of facilities.

There is such a demand through necessity and an interest by railroads and dealers in all food products, that it seems inevitable that the day is not so far away when the wholesale trade not only of Boston, but ^{of} other larger cities, will experience the change needed.

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Motor Trucks, The motor truck is indispensable in short hauls, both to the shipper and receiver.

The greatest obstacle to the shipper has been the sad condition of the country roads during certain months of the year. Road conditions are rapidly improving so that time will eventually rectify this need.

The receiver finds the rate for expressing his products to retailers very high, so high, in fact, that this charge will often be equal to one-half of the gross profit on the package or packages delivered. These rates should be lowered if they are to be nearer the costs of deliveries of chain store systems to their stores.

Some receivers use their own trucks, but they are unable to use them as efficiently as would be the case if their volume going to certain territory were regular, and of sufficient amount to warrant regular trips. The chain stores can do this since their stores must, of necessity, order from the main warehouse.

Boat Transportation, This means of transportation is too slow to be of any great saving, especially of the highly perishable fresh goods.

Boat transportation is a factor in importation and exports. Canned and dried eggs are imported from China, and frozen turkeys from Austria, Argentine, Australia, and Russia.

The tariff barriers are so high at times as to

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make it impossible to utilize this means of cheap transportation to full advantage.

Delivery Wagons and Caravans. The old fashioned delivery wagon has long since passed into obsolescence, but the caravan is still used to good advantage, particularly in congested traffic centers. This means of hauling goods from terminals to the dealers' stores is costly, and, as suggested in a previous section, it is doomed to insignificance when proper terminals and sidings are furnished.

Conclusion. The middleman must endeavor to keep down freight rates to a level which will not hamper service; he must be more efficient in loading that loss and damage will be minimized; he must use each car loaded to capacity that the minimum freight rates will be taken advantage of; he must seek to avoid trucking charges to railroad and from the railroad by erecting plants in the West at sidings, and securing sites for his stores in the East on siding or spur tracks.

The motor truck must be used to capacity to secure as low transportation cost as is possible, that distributing to the small stores will be no more costly than that of the distribution by chain store warehouses to their stores. This is not absolutely possible, but it should be the ideal or standard set.

CHAPTER VI

PROBLEMS OF WHAT TO STORE AND WHEN TO STORE

Purpose of Storing. Eggs and poultry are stored that the consumer may have them in the season of short or inadequate production at a price which is reasonable and would not be possible were there no facilities for storage. The products are stored during the flush season when prices are low. The speculator takes this storage risk in anticipation of a profit when the product is consumed, otherwise, there would be no incentive to store.

The Poultry Flush. The poultry flush comes at varied times according to the kind and classes. The kinds are; chickens, fowl, roosters, ducks, geese and turkeys. The chicken flush may be classified as follows: (1) broilers, from about July to October; (2) fryers, from September to December; (3) roasters, from November to December; (4) stags, from December to January; and (5) capons, from January to February. Then a lull sets in and these stocks stored are gradually worked out until the influx of a new crop starting with broilers again in June or July.

Fowl receipts run fairly even a good part of the year, the actual shortage coming on sizes at certain

PROBLEMS OF WHAT TO STORE AND WHEN TO STORE times, although there are times when all sizes and grades are short. There is a demand for storing fowl surpluses when they occur. There is no definite time when the glut or low production may come, but they may be summarized approximately as follows: (1) about January, February and March, 5 or 6 pound averages are stored for late spring and summer use; (2) the other sizes being stored principally when the glut is excessive and serious losses would result to shippers and receivers if they all tried to market the receipts for immediate consumption. There may be a temporary shortage in sight and the speculator decides to take advantage of a possible advance for a short hold. He would then store or hold for this period.

The rooster surpluses occur after their usefulness for breeding purposes cease, which is in the late winter and spring months. This surplus so stored is consumed in conjunction with the short fresh stock in the other months.

Ducks and geese are stored from late spring to late fall for consumption during the rest of the poultry year.

The turkey surplus is that portion of the crop not marketed during November or December or which is marketed but conditions prevented receivers from disposing of it satisfactorily. The old toms or sometimes called Bulls are consumed during the year by hotels, restaurants, etc., but the other turkeys find a very limited market and are

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often held until the following Thanksgiving and Christmas holidays when they again enter trade channels with the new crop.

The Egg Flush. This flush starts about the latter part of March, increasing in volume through April and May and gradually declining the latter part of May and June and generally ceasing about the latter part of July. In comparing experiences in the past, the start and finish of the flush will vary from two to four weeks.

It is during the shell egg flush that canned and dried eggs are stored, since these products are made up entirely of eggs.

Problems of Storing Poultry for a Profit. The section devoted to poultry flush has given a general idea of when these kinds and classes should be stored if conditions of the market warrant storing.

The multiplicity of classes and grades and sizes of poultry make it necessary that the middleman be an expert who is able to analyze and study market conditions. In his analysis, he must consider the condition of the poultry in general and then each particular lot; the consumption of poultry: the present storage holdings; price level; business conditions in general; employment in general; prices of other food commodities that may be consumed as substitutes if prices of poultry are too high; production; the receptive mood of the public toward poultry consumption at certain price levels; price of feeds;

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condition of poultry on the farm; poultry population; possibilities of importations; weather conditions with its affect on the crop to be marketed; general health of the country since poultry is an ideal dish for the sick; and many other factors bearing on the industry.

The speculator or dealer who has considered the foregoing facts will then decide upon a price at which he figures safe to store at, also how much quantity at this price. Too often those entering the speculation necessary to storing know little and guess. Quite often they are lucky and profit and quite often they go wrong and lose. It is this latter class of people who make it risky and difficult for the expert to judge correctly, since these persons are inclined to bid prices up to levels not in harmony with the expert's views. Yet since this expert must store some poultry that he may conduct his business. He also is forced to store under glut conditions which might load him with high cost poultry.

Government statistics, private statistics or estimates, and trade papers are source of information utilized more or less. The two latter sources are generally guesses, opinions and propaganda, which are very apt to lead to disaster if much faith is pinned to them. The government figures as issued daily, weekly, and monthly, are supposed to be accurate and so far as is known they are, with some corrections as noted on later reports published.

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The difficulty lies in the fact that these facts or figures are historical as must be the case, but instead of the figure being given out periodically, why not get them out daily that violent fluctuations as occur at times, especially in eggs, would be avoided or minimized?

There is another difficulty that the government tolerates in compiling their figures is guesswork and inaccuracies on the part of those agencies contributing the figures. Whether those agencies are careless or intend to mislead is open to debate. It is a fact that there is doubt as to the correctness of their statements.

Many dealers are not canvassed by the government clerks for their private holdings which is important in street stocks and storage holdings.

The farmer is so superstitious that often he is found guilty of being one agency who intentionally gives out misleading statements, figuring he will lose out in the price he receives if he and other farmers give the accurate head count of poultry on their farms. It does not seem possible that such fallacy could exist with its accompanying results.

Changing conditions have upset the precedent of now storing has been done with its results. The season of 1925 - 1926 has been disastrous for most poultry

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dealers, which is partly due to the storing on precedent, but largely to creating too large holdings at too high a price.

Experience has proven that even the largest holdings on record have been consumed at a price, before the next crop is ready to be stored. In other words, to believe that excessive holdings will not be consumed because they are larger than any previous year considering natural increase in demand is misleading, the price level will govern the movement.

The problem involved in such cases is to store the larger holdings at lower price levels that a profit can be realized. Each year operators or dealers who have lost money the previous year are going to name their price or go without storing, yet, these very same men come back the next year enthused as to the prospects of the coming crop and forget what has just occurred. This change of mind is due to lack of experience, knowledge or weakness of mind. Just let propagandists start their machinery agoing for this class is always willing readers and listeners and are ready to act when the gong rings to start storing.

The conclusion must be that if one wants to store for a profit, he must analyze the situation as described and apply sound judgment with no guesswork, use his head and not his eyes and ears solely.

Problem of Storing Eggs for a Profit.

This

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problem is quite similar to those problems of poultry, insofar as facts and other available information are concerned.

The discrimination of the storing season on account of changing conditions in production has not been appreciated as much as should be. The change is not imbued in the minds of many old time dealers, even though they seem to recognize its presence. Havoc has been brought to those dealers in years that were profitable had they not clung to the old idea.

Changing Conditions. The two previous sections have pointed to changing conditions which are always with the industry. The dealers must recognize them if they are to operate successfully.

The storing of poultry is quite different than was the practice a few years ago. The new crop of broilers is in earlier and is of longer duration. This condition is true of the other sizes of chickens and must inevitably shorten the storing season.

There are few sizes of fowl which may be stored profitably since fowl is in fresh supply during the entire year. The supply does, however, shorten up at certain seasons, at which time the frozen fowl must be used. The storing of the larger sizes prove the most profitable.

The surplus of turkeys from the Thanksgiving, Christmas and New Year holidays must be stored. Those

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speculators who do the storing are now confronted with an importation factor not seriously considered in past seasons. The quality of the stock imported has been extra fancy since it comes in relatively soon after dressing. This is possible since Argentine and Australia are able to market their crops in our summer.

Tariff barriers are to be considered. Our largest importation of poultry consists almost entirely of turkeys. Our price level has been low in the past season and even so, we have imported large amounts of turkeys duty paid to compete with our storage stocks. Our exports of poultry are very irregular and are affected by general conditions across, since poultry is more of a luxury in a country like England. Our poultry exports consist mostly of export sizes or what we call frying sizes.

Easy money tends toward fostering of speculation by cold storage warehouses. These cold storages are looking for business opportunities. Cheap and easy money conditions make possible extremely large advances by these institutions for the storing of poultry and eggs in their cold storages.

The evil, created by this zealousness for business, is to permit many persons to speculate or gamble who are not legitimate dealers and have nothing to lose beyond a scant margin of five to ten percent of the cost and yet have everything to gain. It is not uncommon for clerks,

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salesmen or their relations, and porters to own eggs and poultry which were bought for gambling purposes. This class of persons cannot place their holdings back on the market in an orderly way since they are not accustomed to the actual handling of the commodities. The influence of holdings by these gamblers may cause an unwarranted panic or soft market which would not be warranted had the holdings been in the hands of those whose business is to market poultry and eggs.

Change in legislation relative to merchandising, cold storage rulings, etc., have distinct bearing on the business.

Changes in retail outlets to more efficient retailers or chain stores has lowered the price level to the consumer. This has been possible by building up volume purchasing power, reducing distribution expense, and lowering the margins of profit.

The chain store outlet has become so important that their methods of merchandising eggs and their future merchandising methods of poultry must be taken into consideration when storing eggs and poultry.

Eggs have been successfully used as a booster in the chain store sales campaigns, so much so that it is not unusual to see their appearance on the weekly circular for weeks. Very often these sales are at cost or at a ridiculous profit. In order that one may comprehend what affect this has on the consumption of eggs,

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one must realize that the usual profit of the retailers of about 25% goes directly to the consumer, the chain store being satisfied with a jobber or middleman's profit. This form of merchandising has led to larger consumption than would be possible under our old system of distribution to consumer.

Proper Storage Facilities. The storage facilities now in use in most large cities are efficient. The resulting loss due to improper refrigeration is negligible. The dealers should always take advantage of rate differentials, that one city, as Boston where storage services are under a monopoly, will not absorb the profit in storage charges. Our freight service is excellent so that storing in large cities away from the home office of the dealer is not as risky as in the past.

Lack of Uniform Cold Storage Laws. The industry needs a uniform cold storage law on both poultry and eggs. The favorable laws of one state and the unfavorable laws of another cause considerable inconveniences and sharp practices among dealers which should be avoided. A shipper in Indiana may ship a carload of eggs to Massachusetts which are cold storage under Massachusetts law. The receiver in Massachusetts is not supposed to know the history of the eggs and sells them not marked for cheap short held fresh eggs. The law should be

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Federal or abolished entirely in all states that all may trade freely and equally.

The word "Cold Storage" Creates Suspicion in the Consumer's Mind. The notice cold storage stamped on an article or over it as required under the laws of various states, sets the buyer in a repugnant mood. Absence of fresh stock and fresh stock at abnormally high prices, sets the consumer to shopping. If he finds that he must go without the product or possibly avoid paying the excessive price, he will turn to cold storage eggs. Cold storage products are not popular.

If it were possible to compile the facts, one would be astounded at the quantity of cold storage eggs and poultry which enters consumptive channels for fresh. The public are happy and contented to pay the extra prices, which is generally set lower than would be possible were the product fresh. The consumer in ignorance permits him to pay the retailer or jobber an extra profit for avoiding the law that the consumer's mind might be at ease.

There is a need for education among the consumers which will acquaint him with the food value and uses of cold storage products. Also he must be shown the necessity of storing to fill the gaps left open by underproduction which comes in certain times of the year.

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He must be made to appreciate the value it gives in making more uniform prices. It is not fair to the producer nor the consumer when these products are sold for fresh at near fresh prices. Such practices hurt consumption eventually, since the quality deteriorates and they are suspicious of fresh stock for a time. The honest dealers are hard put during this so-called period of "Bootlegging of Eggs or Poultry." They must toe the mark of the law or risk hurting their reputation in a court action resulting from an infraction of the law.

About ten years ago the average retailer was dependent upon the jobber or wholesaler who purchased in large quantities that the retailer might buy his requirements. In recent years the chain store movement has brought into play a change of buying habits. This new retail factor can buy direct the same as any wholesaler and naturally does insofar as it is best or convenient. The chain store merchant does, however, buy some of his goods locally, but only when the local market is lower than those markets at western points or when his western receipts fall short of his demand.

Distribution Systems. The first factor in importance as it pertains to the large packers (Swift & Co.,

CHAPTER VII

PROBLEMS OF DISTRIBUTION

Introduction. It is not a practical nor physical possibility that all poultry and eggs produced by farmers be sold directly to the consumer. The farmer is too far apart from the consumer that the latter might benefit by such direct buying. Therefore, it is much more economical to ship in carlots. It is the middleman who must fill in this necessary service.

About ten years ago the average retailer was dependent upon the jobber or wholesaler who purchased in large quantities that the retailer might buy his requirements. In recent years the chain store movement has brought into play a change of buying habits. This new retail factor can buy direct the same as any wholesaler and naturally does insofar as it is best or convenient. The chain store merchant does, however, buy some of his needs locally, but only when the local market is lower than those markets at western points or when his western receipts fall short of his demand.

Distributing Systems. The first factor in importance as a unit is the Large Packers (Swift & Co.,

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Armour & Co., Wilson & Co., Morris & Co., and The Cudahy Packing Co.,) ' They have their own packing plants, refrigerator cars, central market at Chicago, and the branch houses as points of distribution. These organizations form a most complete and efficient system for distribution. The second important factor is the independent packer who generally ships his output under a contract with some receiver or receivers located in large centers of distribution. The independent packer, who establishes his own outlets at strategic points, or taken an ownership interest in such outlets, forms a third factor. The fourth class of factors is made up of those receivers who have outlets in one or more large cities and who own or contract directly or indirectly their own packing plants. The fifth class of factors is made up of small jobbers who specialize in native products which are collected locally and sold locally. This class is limited to local distribution and collection. The sixth factor is found in the many cooperative organizations who have their own packing plants and an appointed agent for distribution. Sometimes they have their own selling agency, but more often an independent agency

' When speaking of Large Packers throughout this volume, one must think of those five packers enumerated above.

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is contracted with. The six factors just enumerated have very similar outlets which are different only in size and quality of products demanded. The important outlets are made up of small retail stores, small and large chain store systems, lunches, hotel and restaurants, private and public institutions, caterers, clubs, boarding houses, ship chandlers, and all governmental agencies.

The larger chain store systems as the Great Atlantic and Pacific Tea Co., the American Stores Co., the First National Stores Co., Sanitary Grocery Co., Piggly Wiggly Stores, Inc., the National Tea Co., United States Stores Co., and other large systems, have become so powerful that they can be very properly classed as a seventh factor in our immense distributing system. These factors in this latter group have their own outlets which is generally the selling to the consumer. They do not have their own packing plants, depending entirely upon the first six factors mentioned for their supply. The fear of government intervention has retarded them in attempting to complete the directness of farmer to consumer.

Problems of the Large Packers. When the Large Packers had organized their packing plants for poultry and eggs, many independents felt that their prosperity would be doomed. This fear of the independents was not a

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vision unfounded for the competition of the Large Packers was severe and ruthless that they might make inroads in the business to support their plants.

The independents did not seem to realize at the time that the Packers too must make money and that their advantages were only mole hills made into mountains. Time has proven that those efficient independents can operate successfully and need not fear this angle of competition any more than that of other independents.

The Large Packer has his problems in the scarcity of good executives for managerial positions, inefficient help, stealing, and suspicious public feeling as aroused through the Federal Trade Commission investigation. The most potential problem seems to be in the rapidly growing distribution at retail of meats, provisions, poultry, etc. by chain stores. Will the Large Packers operate all of their branch houses to advantage? It is very obvious that many of their branches will not be a paying proposition unless the other outlets as pointed out will have grown in their demands so as to keep these branches. Then it is very possible that these chain store systems will need outlets for surplus stocks and undergrades, and might, as is true in The First National Stores of Boston, operate their wholesale departments. The outlook is not too bright with the rapidly declining demand for small independent meat shops.

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The raising of capital by the Large Packers is not an easy task. The investing public has absorbed more Packer securities than wished for. This is particularly true of the securities of Armour & Co., Wilson & Co., and Morris & Co. The securities of Swift & Co., and The Cudahy Packing Co., have been paying interest and dividends which yield far more than so called guilt edged securities of other large corporations as United Fruit Co., and Woolworth Co. This large yield is not indicative of a brisk demand for these securities as is general in a "bull market". The investor is discriminating and they have suffered not because they are not financially strong, but their outlook is not too promising and the setback suffered by the other three packers.

These Large Packing companies cannot be efficient distributing systems if the morale of help and stockholders is low. This may be attributed in part to the financial troubles which have loomed with three packers. The banks are their backers, but their patience is limited to the time when they can unload.

Problems of The Independent Packers. The independent packer who depends upon outlets independent of his own organization must first establish a name for packing fancy poultry and eggs. If he does not meet this requirement, his output will not return the

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market price necessary for successful operation. Once he does establish a fancy pack, he must see that it is well distributed in each market to which it goes. Also, if possible, make it known in more than one market to avoid a disastrous market in one center of distribution.

The independent packer has less fear from the affects of chain store competition than the Large Packers. He can very readily adjust his output to the demand. Further, if he does not tie himself up to an expensive plant for distribution, which is quite often the case, he can ship direct to the chain stores.

Some independents have revived the early packer idea of establishing car routes for distributing their products. This idea has been abandoned by the Large Packers where they have established branch houses. There is no fixed investment and a very light overhead expense and can be abandoned immediately without loss.

There is a closer personal touch with the help and minor executives in the independent organization which is quite an advantage over the Large Packers.

The third, fourth and sixth class of factors are in quite the same position as of that group just cited and need no further comment.

The fifth group or small dealers who confine their operations to native products are as a rule

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limited in their collections and distribution, also capital, and do not become very large factors. Their problems are due to the limitations just mentioned and the restricted production in their locality.

Too Many Middlemen. There are too many middlemen in both shipping and receiving of poultry products. The false impression that competition will secure the lowest possible prices is rapidly disappearing even among the laymen. The chain store patronage is acknowledgment of this. The inefficient distribution of poultry and eggs also proves that this contention is wrong.

The duplication of efforts and its accompanying expense is not the most economical. This is what is going on all the time among wholesalers and jobbers. It is this waste which has in part made possible the rapid growth of chain store systems.

If the chain store systems were not in existence, a natural growth in business would have come to the present middlemen, or permitted new ones to take up the increase. Since the reverse is true, the industry needs no new middlemen but fewer until such time as the chain store growth retards or breaks down into smaller chain store units, also until such time as the other outlets increase their demand to take up the slack resulting from the lessened retailer's demand. Then, as

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noted in a previous section, these chain store systems might go into the wholesale and jobbing business, directly or indirectly.

The stimulus for more middlemen is lacking with the outlook for a fewer rather than more, a consolidation of the smaller ones into a larger unit and the retrenchment of the larger ones. This condition is apt to exist for many years to come. A reaction from one or a few large systems of chain stores to many smaller systems of chain stores serving certain territory is very possible. This would be beneficial to all.

The chain store has seen the economic loss through duplication of effort. Their aim has been to place stores in strategic locations which would avoid duplication insofar as is possible. This has not worked out quite as well as anticipated on account of competition and consolidations. The middlemen should profit by their experiences in this direction by lessening the duplication of effort. This could be brought about by encouraging the small man to come to the market and do his shopping, thus saving salesmen's salaries and random deliveries.

What is needed is a larger volume to each wholesaler and a lessened overhead, both of which could contribute toward enabling the wholesaler to sell at a smaller profit. That such a larger volume might be given to each dealer, some would have to close up or

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institute a proration of business program. This is not possible under our system and not desirable since it too would lead toward monopolies. A real business depression among the wholesalers and jobbers with a resulting elimination of the weaker ones is apparent and a good thing. It will encourage the stronger ones to exert themselves to solve their weaknesses and eliminate the weak ones. The wholesale grocers went through such a period which was more disastrous than anticipated. This should be a lesson for the wholesalers of poultry and eggs.

Conclusion. The highly complex system of distribution as noted in the early part of this chapter, has brought three major problems to be solved; (1) less duplication of effort with its cost, and larger volume with the same overhead and if possible less overhead; (2) a reduction of the margin between producer and consumer, and (3) having solved these two problems, encourage smaller efficient chain store units which can sell on a parity with the larger units, this would be more desirable to society.

The objective should be to counteract the modern movement to eliminate the middleman and to sell directly from producer to consumer, in its stead encourage thrift, efficiency, and a fair deal to the consumer and farmer.

CHAPTER VIII

THE MODERN MOVEMENT TO ELIMINATE THE MIDDLEMAN AND TO SELL DIRECTLY FROM PRODUCER TO CONSUMER

Mutual Confidence and Efficiency Necessary,-
Macklin says, "In any relationship the character of the party involved necessarily is of prime importance. Furthermore, dependable and efficient performance of the services which this relationship seeks to stimulate is essential. In considering the necessary conditions for satisfactory working of a marketing system, there are two propositions which are axiomatic.

"First. - Mutual confidence must exist among consumers, farmers and middlemen regarding their respective interests and performances in the marketing scheme.

"Second. - Efficient rendering of essential marketing services must be continuous and dependable."

To quote Macklin further, "In contrast to the essential conditions for the smooth working of the marketing systems there are complicating or disturbing outside forces which must not be confused with marketing itself. These forces may be summarized in three groups, all of which act literally as wrenches in the machinery of marketing. They are:

' Efficient Marketing for Agriculture, Macklin. Chapter I, P.7.

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"First.- The psychology of consumer.

Second.- The psychology of farmers.

Third. - The motives and conduct of Middlemen."

It is these disturbing outside forces which have brought about the change of marketing factors and are disturbing the old system of distribution. The confidence of consumer and farmer has been upset by new conditions which will be brought out in this chapter. Since it would not be possible to sell all, nor the major part of poultry and eggs produced directly from producer to consumer, the subject must be construed to bring them together in a closer relationship. This closer relationship may be established through chain stores, roadside stands and cooperative associations.

Causes of Movement. The consumer would like to eliminate all middlemen and buy direct from the farmer. This is somewhat typical of our first form of trade in agricultural products which was bartering one kind of product for another, the exchange being between two

' Efficient, Marketing for Agriculture, Macklin. Chapter I, P.8.

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producers and two consumers. It is impossible to fulfill this desire for all consumers. Our complex system of agriculture prohibits it. We can, however, attain this end for a small percent of all poultry and eggs sold which are sold through roadside stands.

The consumer is antagonistic to middlemen and retailers of food products. A cartoon illustrating this skepticism was published in an issue of The Country Gentlemen. The title was "What Happens in the Dark?" It showed a picture of a middleman paying \$1.00 to the farmer, followed by a dark space and then another picture of the consumer paying a retailer \$3.00 for the same \$1.00 purchase of potatoes. ' This exaggeration is apparently the belief of many consumers and quite naturally those persons' minds are poisoned toward middlemen and retailers. The facts are that under our old system of distribution, too great a disparity between prices paid the farmer and those received from consumer took place. The chain store pioneers saw this and introduced the chain store systems now in existence. Most farmers have the same attitude as pictured in this cartoon, so they welcome any deviation from the old system. The roadside stand and cooperative

' Efficient Marketing for Agriculture, Macklin, P, 18. Fig. 1.

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associations have been two instruments which have come into play in recent years to meet the farmer's approval.

Too many inefficient and haphazard middlemen, who are parasites in the industry, are the main causes for the large margin of profit. The duplication of effort in selling and distributing, duplication of overhead due to too many executives at large salaries, too many rented stores where less would do, excessive refrigeration, light, heat, postage, telephone, etc., these make up the wastes which chain stores save in part.

The shippers in the West have been too greedy and unwilling to remove the mystery curtain which enabled him to make large profits. His greed alone will do more toward furthering the progress of cooperatives than any other instrument of promotion. The margins of profit have enabled the continuance of many inefficient shippers which has aggravated the condition for efficient shippers, farmers and consumers.. The author has in mind three particular cases where the concerns have prospered beyond all reasonable expectations due to taking advantage as just mentioned. Yet these very concerns are the most staunch objectors to the cooperative movement, complaining of unfair competition. Their objections are legitimate in view of government aid toward the

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the cooperatives. But would there have been the necessity for cooperatives, had they given the farmer a square deal?

The taking advantage of the farmer's ignorance of marketing facilities, conditions and prices is rapidly on the wane, not because shippers have become conscious stricken, but for the enlightenment of the farmer through radio, automobile, telephone, telegraph, market reports by the government and private agencies. Is there any wonder that the farmer should fall prey to the oratory of unscrupulous cooperative promoters? Time should work out a happy medium between the extremes of unfair practice of the old system and the promises of cooperative demagogues.

Farmers should have been encouraged through education to raise better poultry and eggs for which they should be amply compensated. This belated movement is now progressing.

The transition of automobiles from luxuries to necessities has influenced the purchaser thereof to save on other purchases. Food products form a large percent of the household upkeep and have proven a source of possible savings by better buying.

The lack of sufficient working capital by small retailers has humbled them in their buying. They feel obligated to the wholesalers who supply this deficiency

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and pay dearly through premiums. The demands of the time are for small profits and quick turnover, such buying will never permit retailers to come abreast to the times.

The retailers accounting system and stock control is pitiful. Some one must pay for the losses not detected. The keeping of records under the Federal Income Tax Law has not proven the beneficial factor to small businesses that it has to the larger units.

The accounting systems and stock control of the middlemen have been a hindrance rather than a help to more efficient distribution and the cutting down of costs. The Large Packers have done much by the introduction of their systems toward aiding the middleman since he has copied many ideas and hired help educated along Packer lines.

The entire system of distribution as existed has been so inefficient, repugnant to public demands, and full of greed that one wonders at its long life. The new movement is the inevitable extreme.

The Farmers Objective in More Direct Selling.

Farmers have always sold all the products they could sell to advantage locally. The great division of labor has made it necessary that the farmer produce surpluses which must of necessity be marketed through marketing channels. These channels as just discussed have not been

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very satisfactory. Recent enlightenment has led the farmer toward clearer thinking for his own betterment. The obtaining of higher prices was only a natural consequence and desire. To accomplish this purpose, there must be less roundabout methods that he receive a greater percent of the consumer's dollar than heretofore enjoyed. The chain store systems, the cooperative movement, and the direct selling method through roadside stands has done much toward aiding both farmer and consumer.

The tendency of roadside stand development in California is discussed by Edward F.W. Atkinson of the Watsonville Register in a recent issue. ' His statement follows, "Roadside marketing during 1926 is said to have reached the enormous volume of \$100,000,000. In many cases the grower was enabled to dispose of his products at a good profit to customers who came to his door.

In other cases he was able also to play the role of the merchant, buying commodities like any dealer, stocking his shelves with them, and selling them along with his own products. Even city merchants have found it to their advantage to open branch stores, housed in tents or cheap structures, along the highways.

' The New York Produce News, Roadside Markets aid Growers in The West, Provide Outlets for disposing of Much Produce. P. 1. October 8, 1927 issue.

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"The roadside dealer has as many potential customers as there are people passing in automobiles. In due time, however, he may be faced with some of the problems that confront the city merchant, one of which will be lack of suitable parking space in the vicinity, and another, if he does not own the property, will be increased rents. It will be only a question of time, further, probably when he will have to pay a merchandising tax." New England has progressed very extensively in this form of marketing and promises further development.

If the chain store should extend their boundaries to that role of shippers, they would be the only link connecting farmer and consumer. It is highly questionable as to who would be the benefactors. Chain stores are not conducted on philanthropic bases, the growth of only a few would prove the out come.

The cooperative movement can do much toward helping the farmer if it will extend itself to get nearer to the consumer.

The Consumers are Tending Toward Chain Store Patronage.
This tendency is very emphatic in the industrial centers. The chain store has offered goods at reduced prices and has stated that their prices were an inducement to the

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consumer to save the difference since the consumer was to pay cash and carry their purchase. Thus the stores are often thought of as cash and carry stores. The idea has proven a success and today they have grown into enormous systems. Their original idea of cash and carry is retained in part only, since many store managers deliver and also give short time credit. The consumer has become so accustomed to the chain store patronage that it would be difficult to direct this class of consumer elsewhere to trade, except under the most adverse merchandising methods. The chain store slogans are now service and quality at the lowest prices obtainable through the tremendous buying power of the system.

The chain stores have standardized brands and packages and plainly marked their values that all may be treated alike. This up and above board method has placed confidence in the consumer which was lacking when patronizing the average old time grocer. The old time grocer might have a half dozen prices on the same identical commodity, when consumers friendly toward one another compared prices, the discrepancies were noted. The psychological effect would be to arouse suspicion among consumers.

The chain store has also appealed to the bargain

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Hunting nature of consumers through advertising mediums which broadcast their sales. Each week brings forth certain items for leaders. These leaders are generally priced near cost. The impression which has been created on the housewife is convincing when one analyzes the results that have been obtained.

The chain store has offered cleanliness and neatness which was plainly lacking in many old time stores. The general unsanitation among those stores offset the efforts of a few. The chain store has made it a part of their regulations that the condition be made uniform.

Correct and honest weight is supposed to be found in chain stores which was a source of juggling for profits to many unscrupulous merchants. Such a condition did exist but it was more exaggerated than called for. The effect was to indict all merchants as being in the same category.

The foregoing methods have so impressed the average patron of chain stores that their psychological action brings them to a chain store. It will be an arduous and heart breaking task to break down this one barrier by a group or groups of small merchants.

Effect of Movement on Middleman. The middleman has been and will be a necessity in our distribution system. Whether he will be the large factor as in the

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past, is open for discussion and the awaiting of future developments. It is very probable that the future middleman must of necessity be a larger unit than has operated in the past. Much censure and criticism has been placed on the middleman through a misunderstanding of his necessary services. Nevertheless, much is fact and true and the middleman is facing the day when his inefficiency will reflect its cost.

The jobbers in the grocery trade located at industrial centers have already experienced chaos as a result of chain store competition. The larger wholesalers have been forced to enter the jobbing trade on a large scale to take up the gap left open by the smaller houses passing out of the business. What is true of groceries may possibly be true of the poultry and egg merchants. Even today the egg trade is handled on a very reduced volume since chain stores have made serious inroads into the business. The chain meat store will handle poultry, their success will affect the poultry middlemen likewise.

The Coolidge Administration seems to be favorable to large corporations. This has permitted such organizations as may be national to grow unrestricted. Their methods could not be classed as ethical or fair

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to small retailers, yet, they are permitted to go on without check. If this kind of ruthless competition is continued, which can be by national organizations, the smaller units of chain stores, and small stores must suffer. If these last two units suffer, it is inevitable that the receivers must take the consequences. It is possible that politics may undo some of those things already done. It would be well to maintain the backbone of American society - namely, the middle class of society.

Mr. J.H.Tregoe, now a past executive manager of the National Association of Credit Men, contributed an article on The Chain Store in the Credit Monthly of September, 1927, in which he believed that the well managed local store would not be destroyed. An excerpt of this article follows, "I strongly favor decentralization. I believe in the community merchant as a community asset. But although I have this conviction, I recognize that the retail merchandising field has been greatly overdone, - that training in retail merchandising has been sorely neglected, - and that we are now reaping a harvest of weeds from the tares sown in days when merchandising was easy and there seemed no urgent need for training people for the distribution field.

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"We should not worry over the chain store. If we keep our heads and play our proper parts, the issue will be met satisfactorily and without too much consolidation of distribution power in the hands of a few large corporations."

This able man of wide experience sees disturbing influences which will work out satisfactory to retailer and middleman in time.

Conclusion. The tendency to bring the product produced more direct to consumers eliminating all possible exchanges cannot possibly come to the simple direct exchange of the consumer's money for the farmer's poultry and eggs, excepting for a very small percent which always has and probably will be so handled.

This movement has brought about the establishment of a new and permanent factor, the chain store. Also, it has aided toward the development of cooperative associations and roadside stands.

The fear of retailers and middlemen should be cast off and substituted with a determination to overcome past errors and serve the consumer more efficiently.

There is room for the existing efficient retail and middlemen agencies, chain stores, roadside stands,

' Credit Monthly, Article by J.H.Tregoe, September 1927 issue, Volume XXIX, No.9 .

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and cooperative associations. It is up to each factor to play fair, ask for no special favors, and not to take advantage of unethical business practices.

The aim should be to establish mutual confidence among consumers, farmers and middlemen that efficient rendering of essential marketing services may go on undisturbed. The secondary factors which upset these requirements have had their day and should be shelved for better times.

CHAPTER IX

THE COOPERATIVE ASSOCIATION

The Cooperative. The cooperative idea is not new nor untried, many other food lines have adopted it, some have experienced great success, others with little or no success. Nevertheless, the cooperative has progressed in recent years in all these lines which have adopted it.

The California Fruit Growers Exchange is one of the outstanding successes of cooperatives. Their objective is to obtain a better price for the farmer than would be possible through the existing agencies. The extra price is supposed to be derived in savings due to reduction of overhead, operating expenses and dividends. These cooperatives have their own packing plants and collection facilities. Some have their own sales organizations, others contract with receivers for their output.

The late G. Harold Powell said "Agricultural organizations must be born of necessity- xxx farmers" business association cannot be formed without competing with agencies already established, xxx Among farmers who under existing conditions are already prosperous, the need of business organization is not usually felt, even though the costs of marketing and the

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extravagant profits of the middlemen or the railroads might be greatly reduced. They must feel the pressure of need before they can launch a successful business association. xxx A cooperative organization is more difficult to manage than an ordinary corporation. In the latter, the stockholders do not often take an active interest in its management because they are not experts in the business of the corporation. They select a manager and hold him responsible for the development and execution of their policies, but when a farmer's organization is formed, the farmer is an expert in its affairs to a greater or less extent, and he may feel that he is capable of handling the organization or, at least, of giving active advice regarding the details of its methods. '

Mr. Powell states further, that the fundamental requirements for successful cooperatives include the following conditions: the area covered by the cooperative's unit must be restricted; the organization must be born of necessity; it must be cooperative in form; its members must have a common interest such as that of farmers in a farmer's organization; a member should have one vote or an adjusted number of votes, depending on the volume of business done through the organization; the members must be bound by contract to stand by the organization for a definite length of

' Marketing Poultry Products by Benjamin, P.211.

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time; a capable manager must be employed. '

Exceptions may be taken to some of Mr. Powell's views. Yet these facts may be gleaned from them. Cooperatives cannot successfully meet private business competition in territories where there is no necessity of such an organization, since this particular territory is well satisfied with their present relationships. The organization from its inception must be welcomed in general with cooperation. Also there must be an exceptionally capable man at its helm, one who understands not only business, but farmer psychology and the basic fundamentals of cooperative organizations.

Supplementing the foregoing, the farmer is looking for a little more than what he is getting. That is, he wants a part at least of the profit which has heretofore gone to the middleman.

Are There Too Many Shippers? The farmer also has a decided advantage in a cooperative marketing association which could be utilized even though the necessity was not apparent. This advantage is expressly true in the Middle West where the cooperatives have made only fair progress. Here also is where the bulk of poultry and eggs are produced. Are there too many shippers? There are sufficient at least, here lies a serious problem for the middleman which is analagous

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to that of the receiver or jobbers in their already existing competition from chain stores, as mentioned in Chapters VII and VIII. There seems to be an abundance of shippers in the Middle West territory. Whether there are too many is problematical. The facts are that there is excessive competition and duplication of gathering services which are costly.

The keen competition exercised at times gives the farmers very high prices for his products, but when this competition has spent its force, these prices have been lowered and a fair average is paid over a period of time. The more shippers there are, the more overhead that has to be prorated over the same volume of goods or nearly the same. Most territories in the West are canvassed by shippers or their agents many times where one or a few trips would be sufficient. Take for example, the X, Y and Z. Co. shipping out of DeMoines, Iowa territory. Each one will duplicate the trips of the other in much of the territory. Three expenses, where one would suffice. A real efficient cooperative organization would very easily reduce the cost of assembly, providing it could secure the cooperation of all farmers in that territory. Is there not a wide margin made necessary by so many middlemen depending on territories for the expenses, salaries, and dividends? The chain store has taken

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advantage of the receiver's wide margins due to duplication of effort. The chain store system is private capital with one management and the co-operative does not function so smoothly, this may be the answer.

The cooperative is not a private enterprise in the sense we think of the chain store system. The keen foresight of the chain store magnates prevents him from being discouraged in the system's infancy, at which time receivers would be only too glad to stifle his growth by price cutting. But it was the receiver's weapon which the chain store magnate has used and so the chain store has affected price cutting and has received its start.

The shipper's position is somewhat analagous to that of the receiver, only his competition is not so organized nor in perfect accord or harmony. The shipper is using better foresight and meets cooperative competition and at times bids it up to the losing point for cooperatives. This method is bound to retard the cooperative's growth and possibly in time stifle it. The farmer is prone to what the shipper's motive is in such methods and gives him rather than the cooperative the benefit of the doubt. The farmer is suspicious of the shipper, but will place more confidence in him rather than in his own cooperative.

Unscrupulous promoters are always ready to take advantage of cooperative organizations. There is

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probably no greater obstacle to the progress of co-operatives than the very fact of lack of confidence. This lack of confidence has been created largely through such promoters just indicated. With these obstacles and advantages in mind, there are, nevertheless, individuals who have faith enough in the movement and farmers to go on organizing cooperatives in the Middle West. Some of these successful ones are in closely related lines as the Wisconsin Cheese Producers and Land O'Lakes Creameries Association, Inc. In the poultry and egg business we find the Missouri Farmer' Association. There is room for both forms of organizations which if worked out to a desirable end, should leave the strongest shippers and cooperatives, the latter replacing the inefficient and weak shippers.

The Federal Government's Attitude. Politics have considerable bearing on the smooth operation of our marketing machinery and are now meddling by trying to legislate further aid to cooperatives.

The Republican party knows well that they must try to keep the farmers of the Middle West happy and content if they are to remain at the helm of our national government. Yet President Coolidge very wisely vetoed the McNary-Haugen bill which would never have satisfied the purposes for which it was drawn. This veto must be counteracted by some legislation that will benefit the farmer or the Republican Party will be the sufferer.

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What constituted cooperative organization was clearly defined in The Capper-Volstead Law passed by Congress in 1922. This law provided for certain specific exemption from taxes and limited previous enacted Anti-trust legislation to organizations other than cooperatives as here defined. This legislation is apparently insufficient, hence to meet the further demands of farmers more must be done.

The department of agriculture has arrived at the conclusion that cooperative organizations fostered and aided by the federal government are the cure all for the farmers' ills. This is more political propaganda. Its results would be chaos among middlemen, also a complete confiscation of private property. The department of agriculture has already undertaken to be an unpaid salesman for the cooperatives. Take the case of the Land O'Lakes Creameries Association, Inc., of Minnesota. This organization is permitted to use the department of agriculture's name in its advertising, stating that they, the Land O'Lakes Association, Inc., have the approval of the United States Government stamped right on the package of every pound of butter that goes out of their creameries bearing a certain score and it reaches the consumer with this score. There is no private creamery in the United States that would dare venture on such a proposition, why should they? There is no quantity of butter made that will

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score 90 or 92 at the creamery and reach the consumer with the same score. If the Federal Government permits this with butter, they will also do the same with poultry and eggs once standards are accepted nationally.

An article written by Seymour H. Newman in the Produce News, September 17, 1927, brings out many good arguments and many poor ones on cooperatives. The impressive part which points out the evil of the Federal Government's fostering of cooperative marketing and its resultant confiscation of private property is quite interesting. He goes on to state that in only two other cases in American History have such radical steps been taken; one, "After the Civil War the Government freed all the slaves and deprived the owners of their property rights without compensation, because the system of slavery was a sore spot in American life; the other, after the late war the saloon business was abolished, without respect to the property rights of the brewers, distillers and the saloon keepers, because the liquor business was deemed to be inimical to the best interests of the country." Mr. Newman must bear in mind that the government must first ban the middleman and substitute the cooperative by force to bring about such a condition. This hardly seems feasible, but were it so enacted the government should pro-

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vide means of compensation as done with public utility enterprises when taken over by municipalities. Our Federal Constitution specifically prohibits any such confiscation, however, and due care to private rights must be given.

There is no doubt that where conditions demand it, cooperatives might be encouraged and brought into existence, but the government should not interfere by enacting further legislation to foster the cause. The economic advantages of cooperatives, barring personnel, are sufficient to overcome middlemen competition.

The consumers in large industrial centers are paying sufficient premiums for farm products on account of tariffs without adding or encouraging inefficiency and its ultimate increase in costs, this the federal government will do if they legislate too far. Keep cooperatives free from politics and both middlemen and cooperatives will thrive to the benefit of farmer and consumer.

It is not equality nor fair play for a government to collect taxes from middlemen and by the use thereof foster those institutions which are their undoing if so aided.

Conclusion. The cooperative problem is a serious one for the shipper and receiver and is bound to cause some loss of business, temporarily at least, to the middleman. But if the existence of both is left to be

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CHAPTER I

solved by each in itself, without artificial aid or barriers as government interference or unfair price practices on the part of shippers, there is no reason why both cannot prosper to the advantage of farmer, middleman, cooperative and consumer. normally low, consumption increases and production decreases. When the price level is normally high, consumption decreases and production increases. The shifting of price levels tends to bring about an equilibrium. The stabilization of the price level benefits all. It should be toward this end that the middleman lead his efforts. The consumer and farmer will be more content, and the middleman and retailer will have a more uniform volume.

Prices or Quotations. Prices may be determined for five different groups: (1) paying price to the farmer, (2) shipper's price to the receiver, (3) receiver's price to wholesaler and jobber, (4) jobber's price to the retailer or other semi-wholesale outlet, and (5) the retailer's price to the consumer. Each price has its effect on what going before or after, therefore all price levels must be studied by the middleman that he may govern his buying or selling transactions accordingly. Each group make their prices according to certain conditions existing at the time. It is the calling of

CHAPTER X

THE MARKET AND PRICE MAKING

Consumption and production normally depend upon price levels. When the price level is normally low, consumption increases and production decreases. When the price level is normally high, consumption decreases and production increases. The shifting of price levels tends to bring about an equilibrium. The stabilization of the price level benefits all. It should be toward this end that the middleman lend his efforts. The consumer and farmer will be more content, and the middleman and retailer will have a more uniform volume.

Prices or Quotations. Prices may be determined for five different groups; (1) paying price to the farmer, (2) shipper's price to the receiver, (3) receiver's price to wholesaler and jobber, (4) jobber's price to the retailer or other semi-wholesale outlet, and (5) the retailer's price to the consumer. Each price has its effect on that going before or after, therefore all price levels must be studied by the middleman that he may govern his buying or selling tendencies accordingly. Each group make their prices according to certain conditions existing at the time. It is the calling of

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keen judgment on the part of the middleman as to what is the proper price level that makes him a success or failure. If his judgment errs too often, he is bound to fail.

Objective. It should be the aim of middlemen to stabilize prices of all factors that each group may profit to the extent of the service performed. This stabilizing point must of necessity yield a profit to the producer. The avoidance of wide price fluctuations will tend toward stability of the business.

Egg Futures. Future trading should be for the benefit of those legitimate dealers who handle the actual commodity in some stage of the marketing scheme. The purpose or aim of those entering into such transactions must be in the main for legitimate purposes and not altogether for pure gambling motives, otherwise, the economic significance is lost. Future trading should be used as an insurance against violent price fluctuations which might prove disastrous. Hedging is the trade term.

The egg merchants were initiated into future trading in 1921 by the Chicago Mercantile Exchange. This new mechanism was welcomed by some as a much needed device and a source of stabilizing influences on price levels; others marked it as a curse to the trade. Some of this latter group have since changed to the

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former, and vice versa.

The shipper and the storer of eggs are supposed to be the largest benefactors of future trading. The former might assure himself of a profit on his pack of eggs when there is no ready buyer at a profit by selling eggs for future delivery on the board and storing those eggs not marketed. The storer once having accumulated his holdings might find it advisable to hedge his holdings for a profit or to stave off a serious loss. The actual use for these purposes is not up to expectations. First, the eggs must be stored at specific points or they will not be recognized for delivery purposes, and second, the trade is more inclined to gamble rather than to reason out its possibilities along the lines suggested.

Most eggs used for delivery are in Chicago warehouses. Those eggs which might be used for delivery at other points are not so used since it has not proven practical. The freight differentials, inspection for grading, and other red tape has deterred the merchants from taking advantage of the privilege.

It is possible that the argument of less expense and the ease of marketing paper eggs has done more for the successful operation of the board as far as the Chicago Mercantile Exchange is concerned

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than any other arguments. The lure of possible profits with so little effort and expense has kept the mill going and has proven very disastrous to many traders.

The future egg board has prospered through its brokerage fees, but at the expense of a great many legitimate dealers since the public has not participated to the extent as enjoyed by grain, sugar, cotton and coffee futures. The actual deliveries of eggs made by short sellers to go directly into consumptive channels was not 1% of the total transactions in any one year. The result is that for every profit made, someone has to take a loss and in addition pay the cost of doing future business through the brokerage exacted for the particular transaction. The actual profit or loss resulting from the deliveries of actual eggs is negligible. If the public in general does not participate in these dealings that they may be some of the shorn lambs, the burden naturally must be carried by those dealers who have as yet to see the folly.

The dealers must quiz themselves on this problem of conducting a future board and determine its value or detriment to them. They must ask themselves such questions as: Has the board stabilized prices? Does the quotations thereon represent true conditions and values or is it manipulated by a few? Is it a

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mere gambling device? If it is a gambling device or nearly so, can it be corrected to perform its economic functions? Who sponsor it and who frown upon it? Why do they take their views for support or of objections? What has it done for the trade as a whole since its start? The greatest evil lies in its gambling attraction which must be removed or it can be classed only as a parasite on the dealers in butter and eggs.

Statistics. Accurate and regular statistics as to production, shipments, street stocks, movements, in and out of storage, consumption, storage holdings and any other helpful data should be made available to all. This is essential that these elements may be properly used for more accurate price making.

The federal government has furnished some facts on daily street stocks, daily movement in and out of storage in ten large centers, also in each local market. The same information is given weekly for twenty-six cities, but only monthly for the entire country. The origin of production and the quantity produced is available after the news is over and the conclusion decided upon.

The real need is up to the minute information through government agencies that the market will be quoted more scientifically. If such information is

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to be made available, it will necessitate the co-operation of the farmer, shipper, railroads, warehouses, receivers, jobbers and chain retailers.

Dependency on Private Agencies. The bulk of poultry and eggs entering the New York or Boston Markets is based on the Urner Barry Price Current of New York. This is a private market information bureau which quotes prices to the best of their ability. These quotations should be entirely representative of actual conditions and not biased.

There seems to be a tendency at times for these quotations to be influenced by unscrupulous dealers by their reporting sales which are not representative of the true market as a whole, and yet influencing the quotations. The seriousness of such a fluctuation can only be appreciated by those dealers affected. It is highly important that this agency be fully informed and guided by the best available facts in determining their prices, since many millions of dollars of business are transacted on the basis of these quotations. The trade should have exchange committees for investigating price making by such private agencies so as to check up on the accuracy of their quotations.

The Produce Exchange. The various exchanges located throughout the country make the rules and set standards for trading in poultry and eggs as they do

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for other food products.

The exchange is an organized market place where individuals or their brokers may buy and sell; it promotes uniformity in customs and usages; impresses the trade with just trading principles; aids toward quick settlement of disputes; disseminates valuable commercial and economic information; and suggests cooperation among its members. The fulfillment of the forgoing purposes of the exchange are found wanting in many exchanges.

The Boston trade use the exchange more for securing market quotations, weather reports, market conditions, and receipts of Boston and other cities. The quotations as made in Boston are not especially significant to receivers of western poultry and eggs. They are very misleading and create suspicion among those so attempting to utilize them when buying or selling. There is a great need of a more organized exchange which should aid toward placing business transactions on a more scientific basis. More accurate quotations would do much toward recognition of exchange quotations in preference to those of private agencies.

A study of the precise functions of the stock exchanges and an analysis of this study might do much toward bringing about more scientific produce exchanges.

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The quotations of private agencies, produce exchanges and government agencies are confusing at times and lack harmony. A closer relationship is to be desired.

The quotations of these various agencies are broadcasted daily over the radio, telegraph wires, telephone, newspapers and other news organs so that the consumer and producer are pretty well acquainted with prices and conditions as existing in the food markets.

The broadcasting of the market information has done much toward overcoming the unethical methods of some few middlemen in trying to keep such market information covered up. It has put the industry on a higher plane for the cards are on the table and it is up to the consumer and producer to act accordingly.

The intricate communicating systems at the command of exchange members has done much to keep a better balance of supplies going to the various markets of the country. The price level of each market should be more uniform, the differentials being accounted for in difference in freight rates.

The Markets. The important poultry and egg markets of the country are situated in the larger cities. These cities are generally a center of distribution for suburban and urban territories which are quite often heavily populated as New York and Boston.

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The most important of the markets is Chicago since many of the largest dealers in the country congregate or transact their business through there. Chicago is the great distribution center for the United States since it is located at a very strategic point in the industry and is a railroad center. New York will run a good second with its tremendous consuming power accompanied with an immense distributing power.

An analysis of the centers of consumption and distribution would bring out a division similar in some respects to that territory served by the Federal Reserve Banks and their subsidiaries.

Since Chicago and New York are so important they must be considered jointly. Their quotations or prices are the basis on which practically all poultry and eggs produced in the Middle West are sold. In order that other centers may receive their supplies, they must pay on the basis of these prices, plus the freight differentials and sometimes a small premium. The majority of shippers know from experience that their products will bring just as much money on the average from receivers in other centers than New York or Chicago. This knowledge has done much toward creating a better equilibrium of supplies in all centers and prevents a glut at times in the two large markets which would necessitate reshipment.

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We have the facilities for quick communication but we must have more adequate facilities for obtaining greater accuracy through such aids as better statistics, accurate movement of goods, market conditions, stocks on hand and grades and any other detailed information. This added information must be standardized and furnished by a recognized agency. The information should be made available so as to avoid creating extreme shortages or surpluses through unwarranted price fluctuations. Under the present system, the Government report might indicate a very large surplus of eggs or poultry over a year ago, this might cause a serious price decline with its resultant losses. This severe decline will automatically induce a larger consumption which may be large enough to completely wipe out the surplus and even create a shortage by the time the next report is available. When the new report shows such a possible change, prices will react to higher levels. If this information were available from day to day or in shorter periods of time, such violent savings would be diminished and stabilize price levels.

It is not quite fair to use the following example, yet it gives the extreme which is a warning to the ever present danger in the industry. The marketing of the turkey crop requires tremendous skill, capital, foresight, courage, knowledge, and a spirit willing to gamble. Wild guesses are made by private and govern-

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mental agencies as to the probable size of the crop. The author has yet to see from experience the good derived from such wild guesses and misleading statements. There is grave harm in this forecasting. Therefore, it would be much better to leave the predictions and estimates to individual dealers until such time as scientific steps are taken to gather better information. It might prove of interest to follow the trade papers and journals issued from about September to January and see how these sources of information judge conditions as compared with the actual outcome.

The marketing of the crop is a gamble from the start to the finish. Yet a more orderly procedure is highly desirable and very possible. Carloads of turkeys are routed to points never to be reached or if reached to be suddenly reshipped to other markets. This irregular method costs money through increased freight costs and possible loss through deterioration of quality. Turkeys are extremely perishable and must be handled rapidly. This haphazard and confusing situation is re-enacted from year to year. It should be improved upon without further delay.

Market Requirement Analysis. There is no concerted effort toward analyzing the needs of requirements of each market nor when this is calculated to take them all in the aggregate.

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The situation resolves itself into custom. Each middleman sizes up what he thinks is best. This method has nevertheless worked out better than would be suspected. Would it not be more beneficial if such analysis were made and broadcasted?

The Boston market demands fancy large brown eggs of good quality. The color must not be a grimy brown, but a good bright or reddish brown. New York prefers chalk white eggs of good quality. Havana, Cuba is governed largely by price. Concerted effort could meet this varied demand much better than under present methods.

Take another angle, the shipper may be small with a wide variety of grades and sizes in his poultry and eggs. This shipper may ship in a carlot way if his entire output were to go to one point, but cannot if he should have to meet market requirements as just noted, his premium to be obtained by selecting markets for each class of goods would be offset by the freight advance in less than carlot shipments.

The problem requires a study of why Boston prefers a certain grade and New York another grade and what can be done to acquaint the consumer with the advantages of other grades and quality. Price has been the greatest inducement. It is possible that cooperative advertising might be used to great advantage that these neglected grades and sizes might be consumed to better advantage

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than heretofore. Advertising has proved its worth among raisin and prune packers. Why not this industry ?

One of New England's chain store systems has taken advantage of the neglect of poultry sizes and has obtained success for themselves by securing public favor through lower prices with equal quality.

A little thought and reasoning has created greater value for dirty shelled, cracked, checked and jumbo eggs. The outcome has been the tremendous growth of what is known as the canned and dried egg business.

Conclusion. The middleman must inevitably bring about a more scientific marketing scheme, better and more accurate market information, and more scientific price making. This is demanded of him by both consumer and producer that each may get greater value, also that the middleman reduce his margin for marketing.

CHAPTER XI

FINANCIAL PROBLEMS

Financial Relations of the Shipper to the

Farmer. The middleman's financial problems may be classed as direct and indirect. The direct ones are those which directly affect his own business, and the indirect those which affect him from without.

Since the shipper comes in direct contact with the farmer, he must of necessity be in sympathy with the farmer's financial problems and if possible lend his aid to him.

The shipper must be financially responsible if he is to be of service to the producers of poultry and eggs. It is this responsibility which makes him so valuable to the farmer. It enables him to pay cash for all that he receives. But there is still a further aid which the shipper may be influenced in, that of enabling the farmer to secure funds for financing his farm and his crops. To loan the funds directly to the farmer is not conceivable, but he can do much toward fostering institutions and legislation which are in existence or proposed. The shipper is a better business man than the farmer and is in close touch with him which enables him to see the

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farmer's financial needs. The shipper is also a man of influence in his territory. This influence may extend politically, as well as in business. It seems that no one is better equipped to aid the farmer in this direction than the shippers.

The Middle West politicians have been very successful in satisfying many of their demands for the benefit of farmers. This is especially true of the financial demands. The Federal Farm Loan Act was an outcome of farm relief agitation. This act makes provision for the formation of agencies through which farmers owning land may obtain permanent capital and capital for chattels at low interest rates. It does not, however, help the tenant farmer to become a land owner.

The financing of poultry flocks is largely done by the farmer, but if the industry expands in the near future as in the past, it would not be surprising to see loans made on flocks as is now done on cattle.

Many shippers finance the farmer at the start of their flocks by furnishing the baby chicks. This has been a boon to farmers since it enables him to get the start which might never have taken place without this aid. It is hard to conceive where any further financial aid on the part of the shipper would benefit either party.

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Requisites of Successful Shippers and Receivers. To be a successful shipper or receiver or both, the individual or organization must first be able to finance shipments in carlots that he may be able to take advantage of carlot rates. The Large Packers will set a minimum of efficiency at which the independents may operate successfully. To be handicapped by lack of sufficient capital, will inevitably place a shipper below this minimum.

Experience has shown that this tremendous handicap has ruined many shippers in the large producing sections. The arguments set forth that inefficiency in the preparation of the pack, inefficient buying or inefficient merchandising methods have caused most failures is not altogether true. These are contributing factors in that they might have led to losses, yet, had the organization entered the business with sufficient capital, it would have been able to withstand early losses which are not uncommon among new enterprises. Once these concerns find their stride they soon overcome the early defects.

Sources of Capital. The capital necessary to develop the shipping business consisted in a large part of funds supplied by individuals to operate as individuals, partnerships or corporations. These individuals entered the field in its infancy and subsequently profited greatly. Their profits were re-

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invested. It has only been in recent years that the general public has been permitted to join in ownership of such enterprises and now only through Large Packer securities. The innovation has not proven entirely successful, nevertheless, the capital so raised finances approximately one-third of the poultry and eggs marketed.

The independent packer still depends upon his own resources with a tendency toward encouraging the efficiency of his organization by incorporating it and offering part ownership through securities to the employees. The corporate securities are nevertheless held closely so that the public's participation is nil.

The industry is dependent for its capital from the public through Large Packer securities or through the Large Packers reinvesting their earnings, also upon those independents who furnish the capital out of their own personal funds or the reinvestment of the organizations' earnings.

The past few years have proven none too successful for four of the Large Packers. The reverses suffered have been reflected in the declining market values of their securities. The ultimate loser must be the security holders, especially those who hold the junior issues. Two of the Packers have held their own, but one has fell into disfavor through unsuccessful segregation of subsidiaries which was forced onto

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them by government action.

The Federal Government has been very antagonistic toward the Packers in the development and expansion of their business. This has hindered and retarded earnings. In addition, the public have looked upon the Packers with a suspicious eye. If a corporation is to successfully operate and prosper, it must not be held in check by the two factors so indicated.

Investor sentiment toward Large Packer securities is such as to make it almost impossible to successfully float further issues of securities, particularly those of the group held in disrepute.

Such a condition among the Large Packer securities is bound to cause a very irregular flow of capital from the investing public into those securities. The Large Packers paying dividends may possibly attract more capital, but it is more likely to come in the form of reinvestment of earnings. Those Large Packers who are not paying common dividends but earning them in part or whole may also reinvest earnings, but some are not able to even do this. The expansion programs are retarded, but not nearly so retarded as would be expected. The junior security holders have had to forego dividends that these expansion programs might be continued. It is very questionable as to whether the ultimate expansion or the sacrifice endured by junior security holders is worthwhile.

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Mention has been made of the capital contribution to operate the independent packers. The capital has been supplied by one or more individuals who are experts in the business. They have found it profitable to leave a large percentage of the profits to accrue. The result has been the growth of a number of strong independents. But the tendency since 1920 has not been toward greater expansion, but more toward a waiting policy. Profits have not been so large nor so regular.

Even though the attraction for new capital to the Large Packers or independent packers has not been good, the industry has not suffered for want of insufficient capital. This may be explained by forced sacrifices on the part of junior security holders that earnings might be reinvested in hopes of a brighter future or to stall off complete ruin which would result, had they demanded or continued to pay dividends on these junior securities. The tremendous supply of capital and credit in this country since 1921 has forced the existing capital in the industry to remain since it could not be more profitably used elsewhere, other fields having had sufficient capital of their own. There has been millions of dollars of capital yielding no returns in other fields beside the packing industry, such as the leather industry, textile industry, and others, they too have been waiting in hope. Also the immobility of the capital tied up in plants has de-

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manded liquid capital to save it, or keep a market value for it. Their plants have no ready market. Those who have tried to market them have found them to go begging. Again, the smaller middleman is quite often content with a fair to good salary, even though his investment shows no appreciable return. He is handicapped, but is unwilling to sacrifice his independence to become an employee for others. Another factor adding further capital is the ever present person who knows little about the business and desires to learn but with ultimate sorrow. Sixth, often times bankers must add capital to keep down their losses which would result if they discontinued further credit. Seventh, the most efficient are still able to show fair or good returns and pay themselves salaries. Can these factors continue to bring in new capital indefinitely?

There are other sources of capital which are irregular in amount and in time invested, but very essential to the industry. The commercial bank has always been ready to take on reliable accounts and furnish liberal lines of credit. Many banks prefer this particular industry to others, because of the liquidity of the current assets.

The issuance of warehouse certificates for goods stored renders it possible to secure very large loans on merchandise stored. These loans may be obtained through the warehouse issuing the warehouse receipt,

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the merchant's bank , or through note brokers when the amount is large. The liberality of these agencies at times is such as to often make a loan which will not only be 100% of the cost of the merchandise but in addition an amount which would be a good profit. It is common to find loans for 90% of the cost value. The situation has been aggravated by the zealousness on the part of warehousemen to get business. It is not healthy and is a detriment to the legitimate dealer. Too much credit can be just as harmful as too little credit.

Some of the larger warehouses and packers sell their notes to note brokers in this way, securing ample capital which might not be secured through their banking connection because of the size of the institution or the limitations set by the banking laws of certain states.

Some of the inadequately financed shippers secure advances from greedy receivers who have a stranglehold on them and control their output. This practice is not desirable nor beneficial to the industry and should be discouraged. It does not encourage efficiency for either party. The primary motive of the party advancing the funds is generally selfish gain and to stifle competition for this particular shipper's output. Experience has shown that most shippers backed in this manner have eventually failed.

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Another source of temporary capital may be from concerns dealing in other food products who may have surplus funds between the storage season and flush season which may be utilized by a neighbor or associate who is in the poultry and egg business when there is a temporary demand for funds as Thanksgiving, Christmas, New Year's, or Easter. This practice should be frowned upon as very dangerous. Banks were created for such purposes.

Those concerns which are incorporated often borrow from their officers or board of directors. This practice may work out satisfactorily for temporary accommodations, but should not be resorted to for permanent funds. It would be better in the latter case to issue more stock or other securities which indicate it as a permanent part of the working capital. When the organization is a proprietorship or partnership, the evil is not so great since it automatically becomes capital to the credit man, thus it may be utilized for liquidating indebtedness. A more serious offense is the practice of borrowing by officers or directors of a corporation from the corporation for personal uses.

There is a very valuable source of raising funds for permanent capital purposes which has not been used extensively, yet, it is a highly desirable source. Why the middleman is suspicious of his trade or customers and they of him is a problem. The opportunity for a

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closer relationship in business through stock ownership by customers should not be ignored. It would prove a mutual benefit. The Boston Wholesale Grocery Company of Boston, Massachusetts has demonstrated the possibilities of a similar scheme. It is one of a very few old time grocery houses which have grown in the past ten years. Such a scheme does not successfully forfeit the controlling interest by the middleman. It is merely a scheme for reducing overhead, especially selling expenses and bad debts, and passing the saving along to the retailer at a lower price and the showing of net profits on the basis of stock ownership.

Those middleman who neglect to use or through cause are unable to use any one of these sources of securing added capital are not able to compete on the same parity with those who do utilize them. The nature of the business requires the tapping of temporary capital at flush seasons, since it would not be good business to carry permanent capital which would suffice for the peak load in the flush season.

The normal capital requirements for ordinary turnover would be sufficient for about four months. The capital requirements for the other eight months are abnormal and should be financed from sources of temporary capital. The success of the business is dependent upon very large turnovers with as little permanent

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capital, yet an amount which would be construed as ample by the trade.

Distributor's or Receiver's Financial Relation to the Jobber, Retailer, Hotel and Institution Supply Houses and Restaurants. Over ninety-five percent of these two commodities are sold by the receivers on credit. The granting of this amount of credit requires additional capital which is measured by the volume of turnover and terms granted. Custom has made it necessary that certain lines of credit must be granted, the receiver indirectly aiding the financing of the ultimate buyer who generally demands credit. The following chapter will dwell more in detail the problems confronting credit granting and the basis or terms.

Those persons in the jobbing, retailing, lunch, restaurant and other outlets are very often persons of little means and more or less ability, they are willing to pay the cost of securing credit and have so established a necessary relationship with the receiver.

Conclusion. If the financing of poultry and eggs were placed on a closer to cash basis from farmer to consumer, we could materially cut down the margin paid between farmer and consumer. The chain store has used the cash method of retailing, which has been the basis of their success. Someone must pay for the interest cost, the added accounting costs, the credit losses, and the cost of keeping a credit man or department.

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A large amount of capital now tied up in accounts receivable could be transferred to more profitable uses. The tendency of the industry is toward smaller profits, greater volume per business unit and a larger concentration of capital to each unit. Those business units desiring to keep abreast of the times must strive to eliminate these wastes resulting from extensive credit granting and build up their capital investment that they may handle sufficient volume which will yield a return on this investment.

paid for by drawing drafts when the goods are shipped, which drafts are generally paid upon arrival of the goods. Some of these drafts are drawn and accompanied by order bill of lading, which practice eliminates the credit risk. Those shipments made open involve a credit risk, which requires an analysis of the receiver's character and capacity. The mortality among the substantial receivers is low, therefore the risk is negligible. If the credit problems which arise from this point on to the consumer were no greater, the mention thereof would be uncalled for.

Those shippers who conduct a jobbing business locally, besides their shipping business, have the added credit risk of receivers and jobbers, which will be treated later. Also those shippers who advance

CHAPTER XII

CREDIT PROBLEMS

The Shippers' Credit Problems. The shippers who confine themselves solely to the shipping business have very few credit problems since their customers are few and the turnover of these customers is not large, particularly those to whom credit is granted. A fair percent of the goods shipped to receivers is paid for by drawing drafts when the goods are shipped, which drafts are generally paid upon arrival of the goods. Some of these drafts are drawn and accompanied by order bill of lading, which practice eliminates the credit risk. Those shipments made open involve a credit risk, which requires an analysis of the receiver's character and capacity. The mortality among the substantial receivers is low, therefore the risk is negligible. If the credit problems which arise from this point on to the consumer were no greater, the mention thereof would be uncalled for.

Those shippers who conduct a jobbing business locally, besides their shipping business, have the added credit risk of receivers and jobbers, which will be treated later. Also those shippers who advance

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funds in the form of stock as baby chicks or in cash to farmers have a risk which entails certain problems but of no great moment.

The Receivers' Credit Problem. It is necessary to draw an arbitrary line for each class of credit granting even though many receivers are jobbers, hotel and institution supply houses and etc., since each particular group grants different terms of credit.

The receiver's main objective is to sell in carlots or to break up carlot shipments into as large a unit as is possible to sell. As just noted, he may go further and take on added functions, but it is his functions in granting credit as a receiver that is of interest now. The usual terms of credit are ten days to fourteen days. Occasionally special terms are made for cash to ten days or over fourteen days.

The receivers sell other receivers, jobbers, hotel and institution supply houses, chain store systems and other wholesale consumers as lunch systems. The credit risk is varied with each group, the second and third group giving the greatest trouble since their particular class of trade brings a greater risk. It is these two groups who violate the usual terms most, and since they involve a greater risk they should be granted terms nearer to cash. Competition has been and is so keen that it has not been possible to bring

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about this needed corrective. An analysis of character, capacity and capital is essential here with greater stress on character and capacity in the case of jobbing houses and hotel and institution supply houses since their accounts receivable is often very uncertain and their capital is largely tied up in this particular asset.

The Jobbers' Credit Problems. When speaking of jobbers, it is customary to think of them as wholesalers catering to small retail stores, lunches and the like. Their credit problems have been made more serious with the advent of chain store competition. It has been made precarious in specific localities which have gone strong for chain store retailing. The terms of credit vary according to the commodity and persons securing the credit. Eggs are sold on much longer terms than poultry. Many jobbers have tried to place poultry on a cash to weekly basis, others have extended the terms to a month. Eggs are sold on terms ranging from weekly to thirty, sixty and ninety days. The old time grocer taking the longer terms.

The chain store systems have made serious inroads into the cash business of small retailers so that they have been content to conduct a credit business rather than sacrifice their usual margin of profit to obtain some of the cash business.

Too often these retailers depend upon the jobber

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to finance their business outside of a few fixtures and some equipment which has little value when forced onto the market. This situation is quite general, particularly among the old line of trade, the jobber must adjust his terms to suit the terms granted by the retailer to the consumer. The payment of the jobbers' bills depends upon the retailers' collections and if the retailer errs very much in granting credit, he is very apt to pass the loss onto the jobber. The condition of the jobbers' accounts receivable is not a healthy one. It is only when a jobber discontinues business that the true collectibility of his accounts receivable is realized. His accounts receivable are good as a going concern but subject to a drastic loss in case of liquidation.

The granting of credit to retailers has been haphazard and unscientific even among the Large Packers. Keen competition for business has been the greatest setback toward placing credits on a sounder basis. The analysis of a retailer's standing for credit purposes is limited, capital is too often lacking, particularly working capital, capacity is too often mediocre, hence character can be changed under forced circumstances which are very apt to develop in the changing retailing system. If a retailer has little or no capital and only mediocre capacity and is pent up by chain store competition, he may easily fail even though it is his last

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resort. The revolutionizing of the retailing of food products has been so rapid and impressive that the risk is hazardous and needs closer scrutinizing and the extension of shorter terms of credit with a lower limit of amount. Those credit men who fall prey to salesmen's hard luck stories of poor business and encourage this situation rather than retard it, are bound to be the losers in the long run. One cannot help the situation generally by granting longer credits. The aim should be toward a cash basis.

The credit men of jobbing houses might help these retailers who grant credit extensively through co-operation. The average retailer is not a credit man nor a good collector and needs the experiences and advice of actual credit men. Who can be of better counsel than the credit men of jobbing houses? Get together meetings should be beneficial and bring about a better understanding of one another. Credit may be for good or evil. It must not be abused and must be weighed that proper judgment may be exercised in its granting.

The jobbers also grant credit to small lunches, restaurants and boarding houses. The terms are supposed to be weekly, but since they run in competition with the hotel and institution supply houses, who give longer credits, they are very often prolonged into monthly accounts. The risk is great since character and capacity are the only important factors up for consideration. The fixed investment is large and is generally only partially

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paid in with heavy mortgages or lease agreements covering the unpaid part. The payments on these latter liabilities are often large and are prorated over many months. Here as in the case of the honest retailer circumstances brought on by overhead and equipment payments may force composition settlements or bankruptcy which are unavoidable. Very often the nationality of the persons conducting this particular field of business is very important, since there is one particular class who are grave offenders of good business ethics.

The lunch, restaurant and boarding house business is largely a cash business, since they are able to obtain such extreme terms of credit one may enter the business with a small capital, a sufficient amount to make a first payment on the equipment, rent and the first order for merchandise. After the initial expenditure, the credit is easily established and the jobber quite often becomes an unwilling creditor, spending new dollars in hopes of getting back old dollars. The very nature of the business should suggest a cash basis for business transacted with the jobber, yet the jobber falls a victim to competition in credit.

The business is really one for jobbing specialists in lunch, restaurants and boarding house supplies and should be segregated from the other jobbing business. This latter group add a sufficient amount to

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the price that the consumer buys credit in addition to merchandise. This is proper in view of the great risk.

Credit Problems of Hotel and Institution Supply Houses. These houses are specialist in this business and conduct their business so as to provide for long credits and great risks. The terms of credit are generally thirty, sixty and ninety days, but often times in the case of summer hotels when a season is poor, the credit is extended to the next season.

There are private and government institutions, the latter risk is negligible, the former requires longer credit than the latter and somewhat more risk. The granting of credit to the private institutions requires an analysis of the three c's and a lot of patience. Many of these institutions have been in existence for years or the persons conducting them have been familiar to the trade for years. Much capital is tied up which is costly, but as noted previously the business is so conducted as to provide for the service given.

Little can be said as to how these terms should be made or changed. The varying nature of each institution may require different terms from those of others, each case must be handled separately. So long as these private institutions are willing to pay the added cost of long time credit and generally keep down

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the loss from bad debts, it might be well to let the business work along, as is, without further criticism.

The hotels furnish a problem both in terms of credit and in losses from bad debts. The losses are not so frequent, but are large when they do come on account of the extended credit given. The year round hotels are the more stable and consistent payers. The summer hotels are not dependable for payments since the seasonal aspect is very important in determining their successful operations. The investment by the hotels is large and very seldom provides enough for working capital to be used for prompt payment of merchandise bills. This is true of the large hotels as well as the smaller ones. Whether a joint demand by the supply houses that the hotels pay nearer to cash would bring forth this needed working capital is questionable, it would be beneficial to both parties. The hotels which sublet their eating quarters to an outsider are the more precarious credit risks and cause the most trouble. The supply houses who cater to these persons on the same basis as they would the hotel, if it were to operate the business, are culpable and open to reprimand, except that they have the guarantee of the hotel so subletting or some other responsible person.

The practice of carrying summer hotel accounts

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anticipation of the next season's business. If the margin obtained warrants such a risk, it might be good business but it seems to the author to be a very loose and lax method of granting credit.

Suggestive Corrective Solutions. The loss due to bad debts is great. The bad feature of a large percentage of the losses is the loss due to commercial crooks. The commercial crook is no more pardonable than the ordinary common thief, yet the law gives him the benefit of all doubt and fails to punish him commensurate with the crime committed. This is true of both state and federal laws. There has been and will be lawyers who would sell their soul for a miserable dollar, and so it is this despicable minority group, who encourage crooked clients to become worse crooks by counseling them that they may evade the law.

The National Association of Credit Men have organized a Credit Protection Department, whose main objective is to ferret out these crooks, make examples of them and to discourage the practice. They have made very good progress, But why not put teeth in our laws which will give longer jail sentences? Also why prohibit the credit men from publishing lists of merchants unworthy of credit?

The credit men should first organize as a body, that is combine the credit men of receivers, jobbers

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hotel and institution supply houses, and make rules for conducting the body. Also set forth the principles underlying the organization.

One, if black lists in a modified form are good and essential, use them. It is for the benefit of the legitimate dealers, consumers and middlemen. The smaller the loss from bad debts, the greater the possibilities for operating the business on a closer margin.

Two, no credit men should sit in retail association gatherings and be willing to give counsel.

Three, credit men should encourage the adoption of modern accounting systems, that the condition of a merchants business may be ascertained periodically.

Four, credit men should insist upon signed accurate statements from customers.

Five, they should not be influenced too much in granting credit by the sales department when competition sets a hot pace.

Six, merchants should not be encouraged to conduct a business with insufficient capital.

Seven, merchants with a record should be black-listed unconditionally and not encouraged to repeat their crime again.

Eight, terms of credit once granted should be enforced. It must be admitted that there are times when this would not be feasible and good judgment must prevail. This is the exception and should not be encouraged beyond reason.

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Nine, credit men should come in closer contact with the persons to whom they grant credit. Also make at least an annual visit to see if physical conditions have changed for good or bad.

Ten, lend effort toward bringing the business nearer to cash.

Eleven, do not sell credit, sell merchandise. If it is the particular middleman's business to sell credit, make it pay. The large losses which will inevitably follow require it. This latter class of middlemen is not to be sympathized with, nor to be encouraged in their practices.

Twelve, discourage protective measures as the placing of mortgages on business stock and fixtures, the conducting of the business in another's name, also installing fixtures and equipment on lease or conditional sales agreements when they should be recorded in some public place.

Thirteen, encourage more truth and frankness among credit men when divulging information.

If the foregoing ideas are to be practiced more, we will soon wipe out some of the greatest weaknesses of small merchants, lunches, hotels, and etc.

Prolonged credit is generally a detriment to the recipient, also the stepping stone to composition settlements or bankruptcy.

CHAPTER XIII

ACCOUNTING PROBLEMS

Modern Business Methods Require Better Accounting. It is very difficulty to become efficient in a thing if a clear understanding of that thing is not grasped. One cannot hope to be efficient in business without a clear concise understanding of how it is conducted and its financial condition. There is no other way of determining this essential knowledge other than through a correct and practical accounting system.

Efficiency has forced businesses to be conducted scientifically. If a business man hopes to be efficient, he must surrender himself to scientific methods. These methods may be scientific salesmanship, modern arrangement of organization, modern accounting, etc.

Accountancy is the science of keeping business records. It is absolutely essential in modern business. Chaos will be the reward of large businesses who ignore its practical application. The advent of large corporations and trust with the participation of public ownership through securities made it necessary that some scientific scheme of record keeping be installed. The installation of practical and accurate accounting systems by these larger units of business has enabled

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the management to keep control of the organization. This control has permitted the transaction of business on a small margin since the losses from theft, carelessness, shrink and similar sources are known and can be eradicated immediately.

The food products business has been conducted at a profit among middlemen and retailers because of the national lack of good accounting among them all. Therefore, they were on a parity. Honesty, integrity, alert and capable help were the advantages of one over another. The advent of the Large Packers was the first stepping stone toward good accounting. You will note, however, it is the concentration of capital which has brought this about. Those concerns in a similar business as the Large Packers were soon forced to adopt better accounting methods.

The coming of the chain store with its efficient accounting system bids fair to force the smaller retailers to take cognizance of the necessity of an accurate accounting system. Again it is the large corporation which sees the necessity of control.

The Federal Income Tax Law Paves the Way. It is very probable that this law has done more toward the installing of better accounting systems than any other single act of man. Our federal law provides that all persons doing a certain amount of business or who have a certain amount of net income must keep appropriate

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records which may be audited at the government's pleasure. Those of whom are aware of this law have done something in this direction, even though it might only be the taking account of stock of the individual's net worth at stated intervals and see how the result had been arrived at.

The corporate laws of many states also require corporate reports which stimulate the need of accounting systems.

The larger corporations, partnerships, and individual proprietorships have been spurred on by the federal government, more so than the smaller business units since the task of checking all businesses would be folly. Therefore, the check line has been drawn more to the larger units of business. The smaller concerns are, however, learning to sense their obligation to the government in the matter of returns.

Need of Greater Control. Control is vital in this modern business world. The business man who feels competent enough to conduct a business without this factor of control is to be pitied. The future holds greater possibilities in this direction than was ever dreamed to be possible back in 1890 to 1900. It is this peculiar power which has made possible the tremendous growth of our chain grocery and meat stores. It is the lack of control that is costing the small merchant his very existence in business, even though

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he as an individual is apparently watching all that is going on under the one roof.

Contrast food retailing today with twenty years ago. The advantage of large scale buying was possible then as now; the economy of distribution and reduction of overhead was possible then as now; men sought to expand or branch out then as now: but the control made possible through present day accounting systems had not been conceived.

The general attitude of business men toward bookkeepers or accountants placed this latter group as a parasite on business and an evil. Business men could not see the possibilities in the man running the white collar position; confidence was lacking. It is only in recent years that some men of keener intellect have seen the possibilities through their own experience or education.

Potential Savings. Business men have failed to look ahead toward the potential savings by the adoption of proper accounting systems. Their greed and miserly attitude toward bookkeepers or accountants prevented them from grasping the opportunity of converting this present expense into a saving. It is true that these men were capable in their particular capacity as salesmen, buyers or managers and as a rule were not familiar with office work. It would seem then that the burden should have been placed on the bookkeepers or accountants

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themselves. Such a view could not hold true, even the more aggressive type of accountants were turned down with their new ideas and when permitted to try them, the necessary cooperation from the management was not present. A sad state of ignorance has prevailed. Would it not pay a business man to spend twenty-five dollars for an extra clerk to control stock if he would stop leaks which might cost fifty dollars? This they did not see. Even today many of the old schools are prone to the necessity of changed methods. It is safe to say that they must wake up or they will not have the privilege of affecting these potential savings. Competition has become so keen that business has and will find that it is these possible savings which will determine whether a loss may be converted into a profit.

Intelligent Conducting of Business. It is difficult to conceive the intelligent management of a business under the old system of bookkeeping. Costs were more to guesses, sales represented merely sales, shrinks and profits were thought of once a year and then arrived at by approximations, and the analysis of expense was farther to the thought. The net profit or loss was the greatest interest. What went on in between had meant little, at least their actions would have indicated it.

Our modern accounting systems provide ways and

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means by which the most minute operation may be checked. The volume of sales, the cost of sales, the gross profit, the itemized expenses, miscellaneous income and charges and adjustments are presented for analysis. Stock records control stock, accounts receivable ledger is controlled by a controlling account, the cash is deposited intact, and so one might go on with detail. The old timers would still be suspicious and unconvinced, but necessity has brought it about and has proven its worth.

It would be difficult to cut down expenses if they were not known. It would be difficult to increase sales if the past records were not available and so analyzed as to product, class, etc. The knowledge must be first made available, it can then be intelligently applied.

The recognition by colleges of the need for better education for business men will bring about better trained managers and executives. There is a larger demand than ever for college graduates to enter business. The application of their training to business is bound to improve business methods, particularly in the accounting field.

Uniform Accounting Systems for Shippers. It is very doubtful as to whether or not a uniform accounting system could be applied in a practical way to all shippers. The adoption of a general working base or plan,

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however, is possible. The working out of the detail to suit the characteristics of each shipper's business should be left to an expert. The auditing of such a system of books would be easier and would give much better results since the auditor would be familiar with the basic principle.

The larger shippers have installed more up-to-date accounting methods and ideas. This has enabled exceptionally efficient control over their plant, or plants.

The profit obtained for the poultry and egg business depends in a large measure to the increase in weight of flocks in batteries, a minimum output of undergrades, prevention against disease, minimum feeding costs and correct buying. It is absolutely impossible to watch these things unless proper and accurate records are kept.

Stress on the uniformity of the basic principles is important since most of the operators of importance have one or more branches. Unless adequate and uniform ideas are set forth for each plant, the central office will be at a disadvantage in comparing results of each plant. Also the economy of auditing similar records is worth while.

The comptroller, accountant, auditor or other office man in charge should not be a man selected from the ranks without the fundamentals of accounting. The man selected for the position must have training, those who would let salary stand in the way of obtaining such properly qualified men are the losers. The details of

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the office, office forms, plant forms, credit granting and financial problems are always changing and need gradual and constant changes to keep up-to-date. Unless the man in charge is trained to meet changes and adapt himself to the newer ideas, he is a detriment to the shipper.

More Efficient Systems for Other Distributors.

In order to differentiate between the systems used by the Large Packers, the author has used the words other distributors. The Large Packers have installed very efficient systems which have functioned satisfactorily. It is a mystery why the other distributors have not copied, adopted or adapted similar systems for their business. The answer may be that these independents do not appreciate nor realize the value of such systems and are content to go on guessing.

It would not be fair to assume that all receivers lack proper checks on their business, but it is a fact that the percentage is so high that the seriousness of the situation should be brought to their attention.

The gravest errors occur in the way that cash, stock and credits are handled. The industry as a whole has entirely too antiquated cash and stock systems. The handling of the accounts receivable and credits has improved.

All cash should be deposited intact daily. A stipulated amount, which might be adjusted to require-

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ments, should be the working fund. When the fund becomes depleted to inefficiency, the vouchers should be written up in the cash book and a check drawn to the order of the company to replace the total of the vouchers so charged off. All payments over a certain sum should be paid by check, the form of which is immaterial but a voucher check in duplicate has proven very adequate and practical. The adoption of such a system would enable the treasurer or person signing the checks to check all payments with ease.

Any system installed for checking stock should be tied up with the general ledger in a similar manner as the accounts receivables are controlled by the controlling account. It would be no more difficult to find a needle in a hay stack than it would be to find such a system among the independents. The independents stock systems are crude. Frequently the proof is left to a shipper or other floor man who knows little about clerical work, let alone accounting. The average system operates on the idea that if you have one hundred boxes of poultry in the morning and sell fifty, you should have fifty on hand at the end of the day. Very true, but what if a double error occurs. Example, if only forty-eight were sold and charged, but added as fifty and there was only fifty on hand at the end of the day. How is the discrepancy of two boxes to be detected? Also each box is marked with the weight of contents. Who is to detect the error or proof of

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weights? Some independents check weight, but the figures they use in the check are not proven. The situation is not healthy, yet the owners seem to be contented.

The accounts receivable and the handling of credits seem to go together in the smaller houses. Most houses have devised a means of drawing off an abstract of the accounts receivable periodically for a proof and a condition thereof. It is doubtful as to whether the proof is always obtained. The more serious fault lies in the lax and loose appearance of the accounts due to poor credit granting or inefficient collections, and open balances never to be realized by liquidation. Many accounts represent absolute dead losses never to be realized upon, under any circumstances. Other accounts will represent investments by the independent in outlets which he must support financially through a continuous flow of merchandise or lose the entire account. Income taxes have been paid on profits which might have been real losses had the dead and doubtful accounts been properly charged off rather than let them remain as misleading assets. Enough has been brought to indicate the deplorable condition existing in accounting systems of independents.

The Large Packers have attempted to keep abreast of modern accounting and are profiting thereby. These packers could never have expanded nor remained in busi-

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ness as long as they have, if they had ignored the importance of a proper accounting system.

The Sad Plight of Small Retail Accounting Systems. The retailer's greatest handicap is lack of knowledge of what is happening, he only knows what has happened. The future for the existing retailers is dependent upon their recognition of the necessity of keeping proper records systematically. Without this control, they cannot hope to compete intelligently against their larger competitors, such as the large markets and chain stores.

Many attempts have been made to acquaint retailers with retail accounting systems, but to no avail. The failure to impress them is logical since they are not accountants and cannot acquire the knowledge without training, also they are unwilling if not unable to pay an accountant to keep such records. When more trained students enter the retail field, the situation will change for the better, but not until then. These students may be practically trained through chain store experience or by college training with the eventual acquisition of the business experience.

It is hopeless to point out the errors, but a few suggestions for betterment may be helpful. Too many retailers are dependent upon giving credit to secure sales and upon receiving credit to obtain merchandise to be sold. Those who are of this group must place their busi-

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ness on a cash basis or near to cash that they may pay cash or near to cash for their merchandise, or they must raise more cash capital to carry the business as conducted. When bills owing the retailers and bills owing by the retailers pile up, confusion results. The loss of unpaid bills owed retailers and the duplicate payment of bills owed by them is very possible. Also the determination of net worth is impossible without a knowledge of bookkeeping. In order that this complication may be simplified, the foregoing suggestions of placing the business nearer to cash or cash is essential. The end of each week the incoming bills should be properly checked in against the receiving book record and paid by check, which may be delivered the early part of the following week. The cash collected should be deposited intact except for petty payments and payroll which should be properly recorded in a cash paid out book. The total amount of accounts receivable outstanding at the end of each month should be determined. The inventory at the end of each month should be taken. The payments for added equipment, withdrawals of capital or for other than merchandise or business expenses should be separated. With these simple steps performed, the remaining task is easy, that of determining the net profit and net worth.

The net profit may be obtained by taking the inventory as of the first of the month, adding purchases of merchandise for the month as shown by the check book

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plus cash purchases as shown in cash payment memoranda, from this total deduct the inventory at the end of the month. The result is the cost of all goods sold. The next step is to determine the net sales. Take the deposits made during the month for the account of the current month's business, add the total of all cash payments as shown in the memoranda book, from this total add or deduct the increase or decrease respectively in the accounts receivable at the end of the month over the first of the month. This will give the net sales. Deduct the cost of all goods sold from the net sales, the difference is the gross profit, from this gross profit deduct all expenses paid out by check and cash as shown on the check book and cash paid out memoranda book. The result is the net operating profit or loss. Interest credited by the bank on bank statement is to be added to this, also any losses on account of bad debts must be deducted. The final result will be sufficiently accurate to determine the progress of the retailer's business and give him control of percent of profit realized on sales and cost percent to do business.

An inventory of all the assets as of a definite date, less all liabilities will give the net worth. Also a similar inventory at another date will give the increase or decrease in net worth, which may be the profit or loss for that period if no additions or withdrawals of capital are made.

The assets are generally cash in bank, cash in

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store, accounts owing retailer, notes owing retailer, merchandise inventory, fixtures, equipment, and prepaid items. The liabilities are generally bills owing creditors, notes owing others, accrued expenses not paid and liabilities contingent upon certain events.

There are many details such as the selection of proper books, files and systematic filing of bills owing them and owing by them, which must be left to good judgment. Competition will bring about this needed change willingly or through the experience of financial embarrassment.

Existence Dependent upon Recognition of Better Accounting. Chain stores introduced better accounting and those who hope to stay in business with them must also improve their accounting systems. The chain store margin of profit is calculated upon scientific facts such as exact cost of merchandise to be sold, exact cost of operating business, volume anticipated through experience, wholesale market trends, allowance for cut price competition, shrink, and fair returns upon invested capital. There is no groping about hoping for the best, as has existed, and is very common today.

This refinement of calculation based on facts and experience makes it impossible for the small merchant to add on the loss through heavy shrink due to waste and theft. His usual mark up on a higher cost than that of

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chain stores would in itself yield a higher selling price than asked by chain stores.

The small merchant has one exceedingly important advantage over the chain store if he will only secure control of his business as suggested under the previous section. This advantage will offset the buying power advantage, namely personality. If he will continue these two things, personality and control, the others will be easy to master.

The independent receivers and distributors must ignore and forget antiquated accounting and broaden their mind toward the accountant who will be an asset to them. It is very essential that the margin of profit must be reduced. Competition among themselves with packers and chain stores demands it. The reduction of the margin of gross profit is risky, particularly so when control is lacking, whereas control would make it possible to reduce or eliminate this risk. One cannot evade that loss or expense which is not known except through luck. Business cannot be conducted with the hope of good luck. The middlemen are tending toward the real conception of middlemen, which is the filling in of the gaps in a marketing scheme. The compensation for this service will be relatively small considering each unit, but commensurate with the risk when volume and capital invested is considered. But this margin will not permit of any loss due to loop-

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holes from lax accounting methods.

The accountants of the future in this industry will be appreciated and found to be vital to the business. They will be better equipped with knowledge, also with a freer hand to exercise that knowledge. College graduates who understand accounting, economics, credits, collections, business English, psychology, business and office management, and finance will replace the old time bookkeepers with their meagre knowledge of bookkeeping.

The employees who refuse to recognize this change which is now taking place and also refuse to see the possibilities in obtaining the right kind of office help, will be the employee of the modern employer.

A proper and practical accounting system is as vital to the efficient functioning of business as the brains are to the human body.

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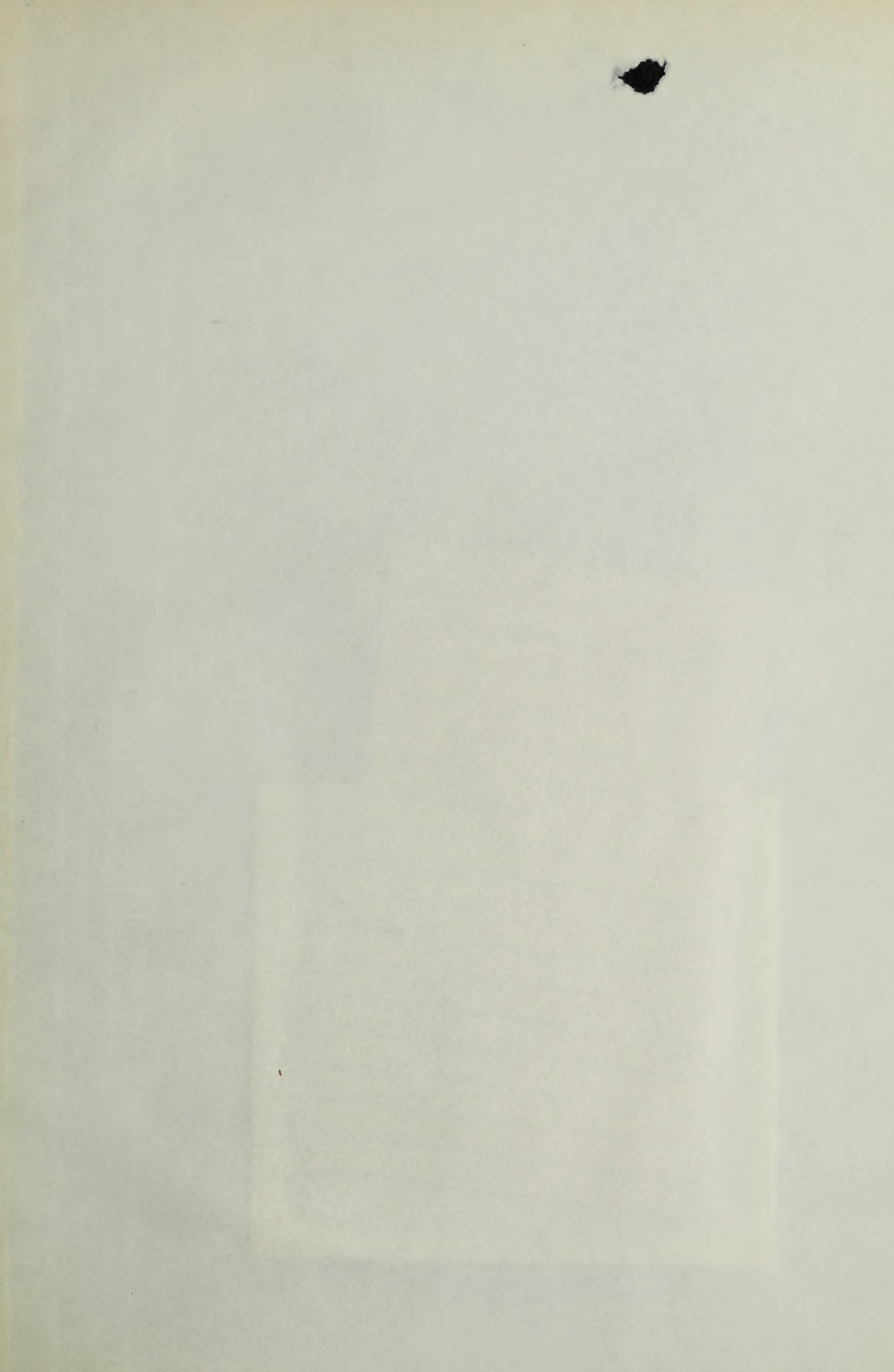
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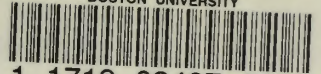
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